Farm Credit Canada

2014-15 Annual Report

FCC CUSTOMER VALUE PROPOSITION

What you can expect from us:

FCC proudly serves Canadian agriculture as the leading provider of financing to the industry since 1959.

We focus on the primary producer as well as suppliers and processors along the agriculture value chain.

We provide our customers with flexible, competitively priced financing, management software, information and learning.

These services help our customers make sound business decisions and experience greater success.

We take time to get to know our customers, their individual needs, goals and vision for the future. We work with them through challenges and help them pursue opportunities.

We're easy to do business with.

Agriculture. We know it. We love it. We're in it for the long run.

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Message from the President and CEO

I'm honoured and humbled to have the opportunity to serve rural Canada, the agriculture and agri-food industry and especially farm families as FCC's President and CEO. I've spent my entire working career at FCC and I'm incredibly proud of what we do every day to forward the industry that feeds an ever-growing world.

Canadian agriculture has never mattered more

I'm excited about the future of Canada's agriculture industry. While there are some challenges, this really is a remarkable time. Our farmers and agribusinesses are very good at what they do. They're passionate, forward-thinking and constantly improving – and I believe all of us who work in the industry can learn from their resilience and sense of purpose.

Agriculture's impact is easy to see here at home, where it employs more than 2.1 million people and contributes more than $100 billion each year to our economy. And while those impacts are incredibly important, the most meaningful outcomes might actually take place beyond our borders, among people most of us will never meet. Canada is one of just a handful of nations capable of meeting a growing global demand for safe, high-quality food, and that's a special privilege.

We're a strong, stable, responsible lender

FCC continues to grow and strengthen. We've experienced 22 consecutive years of growth and our portfolio has topped $27 billion. Agriculture is all we do and as a result we offer a variety of flexible products and services specifically designed for customers across the agriculture value chain.

We operate effectively and prudently, with a sharp focus on meeting our business and public policy objectives. That means managing risk appropriately and working within the federal government's fiscal objectives. It's the foundation for everything we do.

FCC's strong operating and financial performance this year was bolstered by a change in accounting estimate that resulted in a significant decrease to the corporation's allowance for credit losses. This resulted in an unusually high net income of $908.1 million for the year. Details of this accounting change are provided in the notes to the financial statements in this report.

As a prudent lender with a commitment to agriculture through all cycles, FCC feels a deep responsibility to reinvest profits wisely to continue enhancing agriculture and rural Canada, as we have for more than 55 years.

We add value to Canadian agriculture

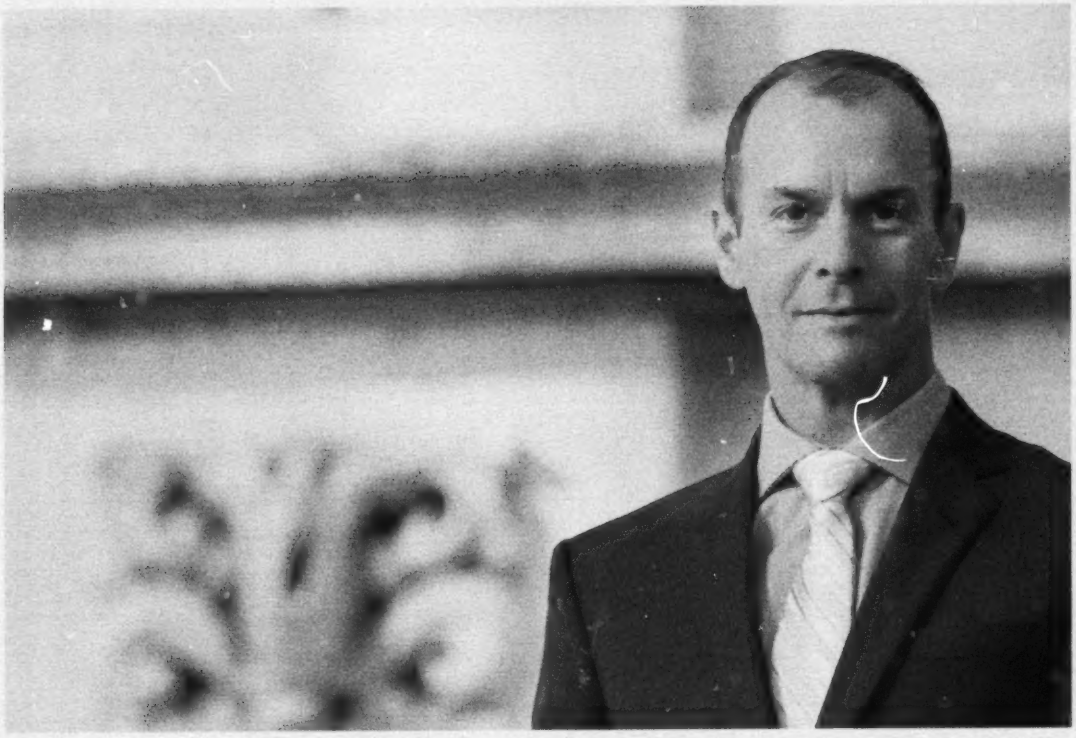
FCC's presence in the agriculture industry puts us in the unique position to be a catalyst for continued growth and progress – and to contribute to the livelihood of farm families and rural communities. It allows us to build partnerships with customers and businesses across the country and in every sector. And it ensures we're there through every cycle.

We contribute to the lives and businesses of more than 100,000 customers. And we're truly gratified each and every time one of them tells us that we've made a difference for them. Creating a great customer experience is the central focus of everything we do. Our Customer Experience Index is proof of this focus – more than six out of 10 customers give us perfect scores when we poll them on various aspects of the customer experience. We work to make it easy for customers to do business with us by operating in a timely and efficient manner.

We also work hard to deliver value well beyond the loan transaction. We share knowledge and insight that enrich the lives and businesses of customers and non-customers alike. In 2014-15, we delivered 116 learning events to more than 11,500 people across Canada. Another 166,142 attended our online webinars. And our website received hundreds of thousands of visits in the past year as people took advantage of our online publications, articles and videos, which provide expertise on a range of agriculture-related topics, all free of charge.

We make a difference in our communities

Contributing to the communities where our employees and customers live and work is one of the things that makes FCC special. Our flagship program, FCC Drive Away Hunger, brought in five million pounds of food in 2014 – and more than 22 million since we started in 2004. I'm truly amazed at the enthusiasm and generosity we see in communities across the country. Thanks to the contributions of countless volunteers – including schools, customers, partners and many others – FCC Drive Away Hunger makes a real difference in the lives of thousands of Canadians.



It starts with passion and energy

The energy and commitment of people who make up Canadian agriculture is amazing. From the producers and agribusiness and agri-food operators who quite literally bring life to the industry, to our employees who see their own success in the success of our customers, there's a real sense that we're all a part of something bigger than ourselves.

Nowhere is that more apparent than Agriculture More Than Ever, an industry-wide cause that gives a voice to the sense of pride and purpose we see every day. With the help of over 380 partners, Ag More Than Ever is creating the kind of real, positive dialogue the industry needs to meet its full potential.

Few organizations are blessed to have a purpose that allows them to be an indispensable trusted partner to their customers, and to do something so important with so many people. FCC is fortunate to have a Board of Directors and senior management team who share that passion for our customers and our industry, and advance it throughout the organization. I personally have the incredible good fortune of following Greg Stewart, whose vision and leadership paved the way for FCC's future success, and made the entire industry better.

Thank you for this opportunity to work with – and for – Canadian agriculture, and to move the industry forward.

Michael Hoffort, President and CEO

Message from the Board Chair

As a federal Crown corporation and Canada's largest lender to agriculture, FCC has an important responsibility to serve agriculture and enhance rural Canada.

On behalf of the Board, we're proud to provide leadership and oversight to FCC. The past year was another successful one for the corporation, with strong lending results, portfolio growth, and continued progress on its strategies and initiatives, including advancing FCC's risk management practices.

With respect to risk management, reporting has been strengthened to enhance the Board's oversight role. The corporation's risk appetite and supporting policies are reviewed and approved by the Board annually. In addition, a capital management framework has been developed to assess FCC's capital requirements consistent with federally regulated financial institutions.

FCC also continues to challenge itself to create efficiencies and streamline its processes, while delivering a positive customer experience.

Like agriculture, FCC continues to evolve and change. The Board participated in the selection process for a new President and CEO following the retirement of Greg Stewart. Michael Hoffort was appointed to the position effective July 2014 and brings a passion for agriculture and over 26 years of diverse experience at FCC, most recently as Chief Risk Officer.

Our Board also experienced renewal this year. We thank John Klippenstein for the contributions and insights he brought to the Board during his six years with us, and welcome our newest director, Jane Halford, who was appointed to the Board in December.

On behalf of the Board, I want to express our appreciation to FCC's employees, who are committed to building the relationships and delivering the products, services and programs that are making a difference in agriculture and our communities.

Moving forward, FCC will work to keep adding value to the agriculture community. Canadian agriculture in the 21st century is an exciting place to be and we're all in it together.

Respectfully submitted on behalf of the FCC Board of Directors,

Dale Johnston, Board Chair

Message from the Agriculture Minister

Canada's agriculture industry is the third largest contributor to our gross domestic product and is the driver of one in eight Canadian jobs. The impact is significant and so too is the potential. As the global population continues to grow and markets become more connected, there are new opportunities for Canada's safe, high-quality food products.

FCC is a trusted partner in the continued growth of Canadian agriculture, ensuring that producers have access to capital and a wide range of financial and business products and services tailored to their unique needs.

Our government continues to put in place the conditions that our producers, agribusinesses and agri-food operators need to succeed. Within Growing Forward 2, a five-year policy framework now in its third year of implementation, we have focused our programs in three key areas – innovation, competitiveness and market development – to ensure that Canadian producers and processors have the tools and resources they need in a changing marketplace.

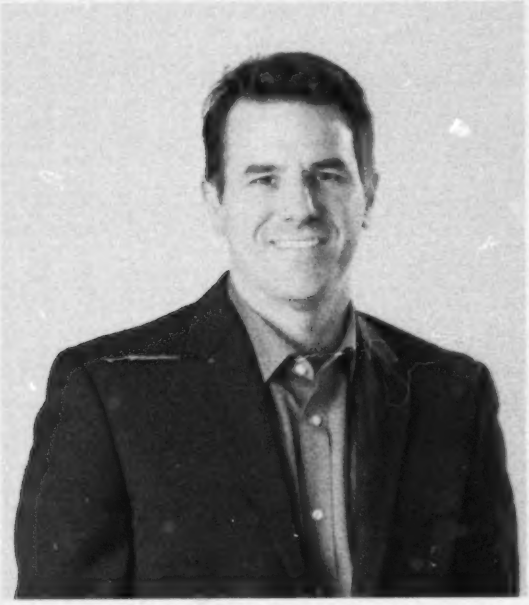
Our strategy includes expanding Canada's opportunities in world markets with a focus on negotiating free trade agreements, most recently with South Korea and the European Union. Thanks to our ambitious trade agenda, Canadian agriculture exports set a new record last year of $56.4 billion.

Throughout my career in agriculture, I have seen first-hand that relationships matter – whether it's a handshake deal between neighbours or the many hours of discussion and negotiation that go into a successful agreement. I am pleased with the strong partnerships that have been created across our government's agriculture portfolio, including FCC, and with stakeholders here in Canada and around the world.

FCC's focus on serving agriculture and enhancing rural Canada continues to serve its customers well. Our government looks forward to building on that success in the years ahead.

Gerry Ritz, Agriculture Minister

Economic update



The Canadian agriculture industry truly operates in a global environment. Multiple economic trends influence the strategic decisions of agricultural producers, agri-businesses and food processors and impact the profitability of their operations.

The global economy continued to improve in 2014-15 amid some slight turbulence. The United States remains the largest world economy and accounts for over 50 per cent of Canada's agricultural and agri-food exports. As the U.S. economy expanded and the labour market improved, consumer spending started to grow again and so did their food purchases, opening up markets for Canadian businesses. Other developed economies like the European Union and Japan continued to show some weakness, without adverse impacts on agricultural markets.

Emerging markets are a positive influence for agriculture. The overall Chinese economy has slowed down, although Chinese food expenditures continue to climb as evidenced by their growing imports. India's economic resurgence was also a welcome sign as it is a major destination for Canadian pulse crops. Rising income and the expansion of the middle class continue to be the most important engine of growth for agricultural markets.

The overall Canadian economy remains sluggish. Oil prices plunged more than 50 per cent, as financial markets realized that the expansion of oil production was leading to excess global supply. Lower oil prices and a brighter performance of the U.S. economy pushed the value of the Canadian dollar down, which is overall a positive outcome for agricultural producers and food processors. Lower oil prices present a major risk for the Canadian economy, and pushed down interest rates from their already low level at the beginning of 2014.

In contrast to the overall Canadian economy, the agriculture industry in Canada is healthy. Farm asset values have climbed faster than overall farm debt. More importantly, farm income is stable or is growing. Total livestock receipts in the last three months of 2014 exceeded receipts from the same period in 2013 by 15 per cent. Crop receipts were slightly lower in 2014 than the previous year, but still managed to be near the record high. Canadian producers continue to make investments to improve productivity and efficiency. This is the key to long-term prosperity in all agricultural sectors.

Opportunities abound for the Canadian agri-food industry. Rising incomes in the developing world are increasing the demand for food. An emphasis on health and higher-value foods in the Canadian market is leading food processors to increasingly differentiate their products. A low interest rate environment and heightened market access abroad supported investments of Canadian food businesses. This is critical to sustain growth along the entire agri-food supply chain.

Equipped with strong balance sheets, the Canadian agriculture and agri-food industry is well positioned to make sound strategic investments and pursue innovation to take advantage of market opportunities that arise domestically and abroad.

J.P. Gervais, Chief Agricultural Economist

Operational and financial highlights

In 2014-15, economic conditions improved across the developed world. Farm asset values continued to increase mainly due to rising land values driven by a healthy Canadian agriculture economy and growing world food demand. Canadian agriculture must adapt to take advantage of new opportunities, a growing global demand and to remain competitive in the global marketplace.

FCC continued to support agriculture by providing customers with flexible and customized financing solutions and other expertise. FCC's commitment to advancing the business of agriculture and its customers, along with providing exceptional customer service, has ensured that FCC remains relevant to the industry's needs. In 2014-15, growth in loans receivable was $1.1 billion or 4.2 per cent.

FCC continued to produce strong financial results in 2014-15. The number of loans disbursed was 47,178 in 2014-15 and the average size of the loans disbursed was $178,825, resulting in net disbursements of $8.6 billion. Net interest income increased by $48.5 million and equity continues to grow with corporate earnings. The significant increase in net income in 2014-15 was due to a recovery in provision for credit losses related to a change in accounting estimate impacting the allowance for credit losses on the balance sheet.

For the years ended March 31

Operational highlights

Loans receivable portfolio	2015	2014	2013
Number of loans	147,230	149,130	147,696
Loans receivable ($ millions)	27,309	26,205	25,133
Growth in loans receivable (%)	4.2	4.3	8.3
Impaired loans as a percentage of loans receivable (%)	1.1	1.2	1.3
New lending			
Number of loans disbursed	47,178	46,288	47,046
Net disbursements ($ millions)	8,555	7,695	7,746
Average size of loans disbursed ($)	178,825	163,649	162,406

Financial highlights

Consolidated balance sheet ($ millions)	2015	2014	2013
Total assets	28,681	27,290	25,871
Total liabilities	23,769	23,070	22,340
Total equity	4,912	4,220	3,531
Consolidated statement of operations ($ millions)			
Net interest income	938.2	889.7	854.0
Provision for credit losses	(281.4)	(47.6)	38.1
Other income	14.1	21.8	15.6
Administration expenses	339.1	356.1	329.8
Fair value adjustment	13.5	39.0	1.9
Net income	908.1	642.0	503.6

Corporate profile

Farm Credit Canada (FCC) is a financially self-sustaining federal Crown corporation reporting to Parliament through the Minister of Agriculture and Agri-Food. Our corporate office is located in Regina, Saskatchewan. We lend money and provide other services to primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture. We share business management knowledge and training with our customers, free of charge. We offer insurance, venture capital and management accounting software that's designed specifically for agriculture.

We're a team of more than 1,700 employees operating from more than 100 offices located primarily in rural Canada. We have professional expertise in many fields, focusing on agriculture, and we're passionate about what we do.

With a healthy portfolio of more than $27 billion and 22 consecutive years of portfolio growth, FCC is strong and stable, serving agriculture through all cycles.

Our roots date back to 1929 when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the Farm Credit Act established FCC as an agent Crown corporation, making us the successor to the CFLB.

In 1993, the Farm Credit Corporation Act expanded our mandate and broadened our lending and administrative powers. Under the new mandate, FCC began providing financial services to larger farming operations and farming corporations, as well as to individual farmers.

In 2001, the Farm Credit Canada Act allowed us to offer an even broader range of services to producers, agri-food operations and agribusinesses.

Vision

The full agriculture value chain believes FCC is advancing the business of agriculture by providing financial products, services and knowledge tailored to producers and agribusiness operators.

Our customers are advocates of FCC and can't imagine doing business without us.

We are socially and environmentally responsible and an employer of choice everywhere we operate.

We make it easy for customers and employees to do business.

We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

Corporate values

We are committed to advancing the business of agriculture. We do this by setting our sights high – working to benefit our customers and to help employees achieve their potential.

Our corporate values represent these core beliefs:

Act with integrity

We are ethical and honest. We treat customers, colleagues and all stakeholders with respect.

Focus on the customer

We care about our customers, and we pride ourselves on providing them with an extraordinary experience based on personal relationships, flexibility and industry knowledge.

Achieve excellence

We share a commitment to high performance, accountability and efficiency in order to achieve excellence.

Working together

We believe in the power of teamwork. Whether delivering service tailored to customer needs or designing solutions to benefit the industry, we work together as one team.

Give back to the community

We take corporate social responsibility seriously. We believe in giving back to the communities where our customers and employees live and work, striving to reduce our impact on the environment and contributing to the success of the agriculture industry.

FCC and public policy

FCC supports the federal government's vision for continued growth and prosperity in the agriculture industry.

The Minister of Agriculture and Agri-Food has established a set of priorities to guide FCC in continuing to strengthen the agriculture industry. We used these priorities, along with the Economic Action Plan 2014, to develop our public policy approach for 2014-15.

We provide access to capital

Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower their production costs, develop new products and compete in global markets. FCC ensures access to capital by providing a wide range of financial and business products and services tailored to the industry's unique needs.

FCC also offers alternative financing to the agriculture industry. Venture capital is provided through Avrio Capital, a private sector entity that manages a series of investment funds on behalf of FCC and other investment partners. FCC's lead as the primary sponsor for each of these funds has attracted additional capital to the agriculture industry from other investors in these venture capital funds or in individual investment deals. This capital helps innovative firms grow into strong businesses in Canada.

FCC works with credit unions to address market and policy issues of mutual interest and identify opportunities for partnership. FCC and Canadian banks work together to provide financing for agriculture operations and agribusinesses. Healthy marketplace competition and a choice of financing are necessary for Canadian producers and agribusinesses to be successful through all economic cycles.

We advance the business of agriculture

We believe that sound financial management is key to successful agriculture operations. To help advance producers' business management skills, FCC continued to offer Ag Knowledge Exchange events, learning forums and publications in 2014-15. Producers of all ages and in all sectors could access the training and information they needed, free of charge. In addition, FCC offers accounting and farm management software tools that enhance our customers' ability to manage their businesses.

FCC also remained focused on ensuring that employees have the appropriate knowledge and tools to provide solid insight and expertise to customers to help them achieve their goals.

Young farmers are very important to the agriculture industry. FCC proudly supports them by offering products and services such as the Transition Loan and Young Farmer Loan, assisting with intergenerational transfers of operations and helping young people enter the industry.

FCC continued to champion Agriculture More Than Ever to show Canadians how important agriculture is to Canada and the world. In 2014-15, Agriculture More Than Ever grew to include more than 380 partners from agriculture, industry associations, private sector businesses, provincial ministries of agriculture, trade organizations and the media, who shared stories of agriculture as a modern and vibrant industry.

We support government policy through collaboration with other government agencies

In 2014-15, FCC collaborated with Export Development Canada (EDC) and the Business Development Bank of Canada (BDC) to support access to international markets for Canadian agribusinesses. FCC and EDC drew on each other's expertise, knowledge, processes and products to improve access to international financing and risk management tools for customers who need export and global investment solutions. FCC and BDC regularly exchanged information on a variety of topics.

FCC employees and their counterparts at Agriculture and Agri-Food Canada connected on a range of topics important to the agriculture industry, including farmland values, commodity prices and interest rates.

Above all, FCC continued to remain self-sustaining and profitable in 2014-15. Our ongoing strength and stability allowed us to continue to serve agriculture through all cycles. With a single industry focus, we continued to reinvest FCC's profits into agriculture through increased lending to customers and by developing knowledge, products and services.

While remaining mindful of the government's Strategic and Operating Review, FCC carefully balanced the resources needed to support a growing enterprise while controlling costs and increasing efficiencies. This allowed us to sustain our excellent financial performance and ability to serve agriculture in the years to come.

We're proud to serve all of agriculture, all the time, in all sectors, all across Canada

FCC's public policy role

FCC enhances rural Canada by providing specialized and personalized business and financial services to farm families and agribusinesses.

Our public policy role is the foundation of everything we do to advance the business of agriculture.

With more than 100,000 customers[1] nationwide, we help producers and agribusiness operators succeed in an increasingly complex and demanding industry.

FCC lends money to all agriculture sectors, including primary producers, agri-food operations and agribusinesses that provide inputs or add value to agriculture.

We're dedicated to agriculture and take a long-term view

We support the agriculture industry and are committed to its long-term success. Our strong financial position enables us to create innovative products and services that are tailored to the dynamic needs of the industry and ensure that producers and agribusiness operators have choices in the marketplace.

Our loan products reflect that agriculture is a cyclical industry and that it takes time for business operations to flourish. Unpredictable weather and market conditions can negatively affect even the best producers and agribusiness operators. We support our customers through highs and lows. We offer a customer support program, which includes the FCC Ag Crisis Fund, to help customers manage through difficult times.

We operate our business in a sustainable manner

Our corporate social responsibility framework focuses on agriculture and food, community, customers, employees and the environment. To support our commitment, we offer financing for environmental solutions to our customers, hire and develop employees who are passionate and knowledgeable about agriculture, give back to the communities where our customers and employees live and work, and continually work to reduce our environmental footprint.

In 2014-15, 39,636 customers received loans or other financial products through one of more than 100 FCC offices located primarily in rural Canada:

Alberta – 7,720
British Columbia – 2,494
Manitoba – 3,151
New Brunswick – 441
Newfoundland and Labrador – 83
Nova Scotia – 541
Ontario – 10,453
Prince Edward Island – 353
Quebec – 4,526
Saskatchewan – 9,857
Yukon – 17

Among these customers, 37,683 are primary producers and 1,953 are agribusiness operators.

In 2014-15, over $2.42 billion was loaned to young farmers.

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[1] FCC currently has more than 100,000 customers. This number includes all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

Corporate governance

We're accountable to the Parliament of Canada

FCC is governed by the Farm Credit Canada Act and the Financial Administration Act. Like other Crown corporations, we're subject to laws such as the Federal Accountability Act, Privacy Act, Access to Information Act, Canadian Labour Code, Employment Equity Act and Official Languages Act.

FCC is accountable to Parliament through the Minister of Agriculture and Agri-Food. We report to Parliament and Canadians on our operations through our annual report, corporate plan summary and quarterly financial reports.

We build relationships with our customers, partners and stakeholders

FCC looks to a variety of stakeholders and partners for guidance and expertise in public sector governance practices.

FCC representatives regularly meet with partners at Agriculture and Agri-Food Canada, the Treasury Board of Canada Secretariat, the Department of Finance and other federal Crown corporations to ensure that our policies and procedures are current and sound. We communicate with Export Development Canada and the Business Development Bank of Canada to share ideas and best practices about ways we can work together to benefit customers. We also seek opportunities to work with banks and credit unions to meet our customers' financial needs.

The FCC Vision Panel is a research advisory group representing Canadian producers and agribusiness operators of all sizes and across all sectors. The panel's input helps us ensure that our products and services meet the needs of the agriculture industry.

FCC representatives attend events and meetings hosted by industry and producer groups. We share knowledge and solicit input and feedback on issues facing agriculture.

In addition, the FCC Board of Directors hosts an annual public meeting in August where we report our activities and financial results and listen to feedback from interested stakeholders and the Canadian public about our mandate and strategic direction.

We help safeguard the environment

FCC exercises all reasonable care to safeguard the environment and protect the value of real property taken as lending security.

To protect the environment and mitigate identified risks, FCC conducts environmental assessments of all properties used by customers to secure financing. The lending decision process also requires customers to provide written declarations that their properties are free from contamination.

As a federal Crown corporation, FCC is also a federal authority with accountabilities under the Canadian Environmental Assessment Act, 2012 (CEAA 2012). We don't provide financing to projects or activities that will cause significant adverse environmental effects.

The CEAA 2012 (sections 67 to 69) states that federal authorities must not carry out or permit projects to be carried out on federally owned lands or outside Canada, unless the federal authority determines that the project isn't likely to cause significant adverse environmental effects or the Governor in Council decides that the effects are justified under the circumstances. FCC must report any environmental assessments regarding projects on federally owned lands or outside Canada.

In 2014-15, FCC did not conduct any environmental assessments for projects that fall under sections 67 to 69 of the CEAA 2012:

- projects on federal lands – 0
- projects outside Canada – 0
- projects referred to the Governor in Council for decision – 0

We represent Canadians

The FCC Board of Directors represents the breadth of Canadian agriculture. Its expertise contributes significantly to the corporation's vision and strategic development. The Board ensures that FCC remains focused on its vision, mission and values, and fulfilling its public policy role.

Board members are appointed by the Governor in Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management.

New appointments

Effective December 15, 2014, Jane Halford of Edmonton, Alta., was appointed to replace John Klippenstein.

In addition, on July 1, 2014, Michael Hoffort was appointed President and CEO. He succeeded Greg Stewart, who retired after seven years as CEO. Mr. Hoffort has worked with FCC for 26 years, during which time he held a number of roles. Immediately prior to his appointment, Mr. Hoffort served as FCC's first Chief Risk Officer. Mr. Hoffort's appointment followed an extensive national search involving a third-party search firm.

We take care of the business

The Board is responsible for the overall governance of the corporation. It ensures that business activities are in the best interests of the corporation and the Government of Canada. Board members participate in the strategic planning process and approve FCC's strategic direction and corporate plan. The Board also exercises its responsibility to ensure that risks associated with FCC's business have been identified. The Board ensures that appropriate authorities and controls are in place, risks are properly managed and the achievement of goals and objectives isn't in jeopardy.

The Board is responsible for six major areas:

- integrity – legal and ethical conduct
- strategic planning and risk management
- financial reporting and public disclosure
- leadership development
- government relations and corporate social responsibility
- corporate governance

Senior FCC managers work closely with the Board to ensure that the Board is fully aware of the corporation's affairs. The Chief Financial Officer, the Chief Operating Officer and the Chief Risk Officer attend every Board meeting. Other members of the Enterprise Management Team (EMT) also attend meetings on a rotating basis to strengthen the relationship between the Board and management. Time is set aside at each meeting for the Board and its committees to meet without management present.

The Board follows a formal approach to the President and CEO's goal setting and performance review. This approach is consistent with the Performance Management Program established by the federal Privy Council Office.

The Board regularly reviews FCC's compensation structure and annually reviews the cash compensation paid to EMT.

In January, the Board met with the President and CEO in a two-day meeting to discuss Board governance and the Board's practices, which was facilitated by a firm specializing in Crown corporation board governance. The session also devoted a day to strategy and the Board and CEO's vision for the future of FCC and agriculture in Canada.

Code of conduct, ethics and values

At FCC, acting with integrity and maintaining the highest ethical standards are vital priorities. On appointment and every year during his or her tenure, each director signs a declaration committing to act in accordance with FCC's Code of Conduct and Ethics.

The Board has also established a process to directly disclose any potential violations of the code by the President and CEO or his direct reports, and a policy that specifies how to address situations where a director has a conflict of interest. FCC's Integrity Officer discloses all possible violations of the code and discusses ongoing employee education and awareness with the Board annually.

Board composition

The Board is composed of 12 members, including the President and CEO and the Chair. They bring a combination of agriculture, business and financial experience to the task of governing a corporation that serves an increasingly complex industry.

The Board has four subcommittees: Audit, Corporate Governance, Human Resources and Risk.

Audit Committee

Chair: Jane Halford
Members: Collin May, Jamie Muir and Ross Ravelli

Audit Committee members are independent of FCC management. All members are financially literate and the committee chair is considered a financial expert.

The Audit Committee oversees FCC's financial performance and ensures the integrity, effectiveness and accuracy of the corporation's financial reporting, control systems and audit functions.

In addition to meetings with management, the committee meets independent of management with representatives of the Office of the Auditor General (OAG) of Canada and FCC's internal auditors.

The Board is committed to financial transparency. The OAG audits FCC's financial statements every year and attends all Audit Committee meetings. The OAG also performs a special examination at least every 10 years. The purpose of the special examination is to ensure that FCC's systems and practices provide reasonable assurance that assets are safeguarded, resources are managed economically and efficiently, and operations are carried out effectively. The most recent special examination of FCC was completed July 31, 2012. The full report is available on FCC's public website.

Corporate Governance Committee

Chair: Donald Bettle
Members: Michael Hoffort (CEO), Collin May and Brenda Schoepp

The Corporate Governance Committee reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and corporate social responsibility program. It also acts as the Board's nominating committee.

The committee regularly reviews the number, structure and mandate of Board committees, and is responsible for evaluating the performance of Board members, committees and the Board as a whole. The committee also oversees FCC's policies on ethics, conflicts of interest and codes of conduct for employees and Board members.

Human Resources Committee

Chair: Brad Hanmer
Members: Sylvie Cloutier, Dale Johnston (Board Chair) and Jamie Muir

The Human Resources Committee reviews all major human resources policy matters. The committee is responsible for advising the Board of the skills and characteristics essential to the President and CEO position and how to assess his performance. It also works with the President and CEO to create an annual development plan.

The Human Resources Committee is responsible for reviewing the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program.

The Board and FCC are committed to offering employees a compensation, benefits and pension package that is fair, competitive and sustainable over the long term. FCC reviews the total compensation package annually and presents the results to the committee for approval.

FCC's Human Resources team compares the corporation to a consistent group of public and private

organizations comparable in size, geography, industry and sector. The goal is to maintain a competitive market position in terms of compensation. Total cash compensation includes base pay and pay-at-risk. FCC doesn't offer long-term incentives.

Risk Committee

Chair: Jason Skinner
Members: Sylvie Cloutier, Dale Johnston (Board Chair) and Doris Priddle

Risk Committee members are independent of FCC management. The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities of risk management.

FCC has an established enterprise risk management process designed to identify potential events that may affect business operations. The committee helps define the corporation's overall risk appetite and sets risk tolerances against which the business is measured, monitored and controlled. The committee is also responsible for reviewing and approving the corporation's risk management policies and overseeing its performance against the risk appetite.

Board performance

Upon appointment to the Board, each director receives a detailed orientation and meets with senior management to learn about FCC. Directors also regularly visit customer operations and attend employee meetings, as well as conferences and seminars relevant to corporate governance and FCC's business. Some are also involved in director certification programs.

The Board regularly assesses its collective performance and the individual performances of its directors through a structured self-evaluation process.

Position profiles for the Chair and individual directors are reviewed annually to ensure they accurately describe desired competencies and skills. Gaps are addressed through new appointments, training, and hiring outside experts to assist the Board in its review of technical or specialized issues.

Compensation

Directors are paid an annual retainer and per diem amounts established by the Governor in Council, pursuant to the Financial Administration Act. Rates were last set on January 8, 2008.

- The Board Chair receives an annual retainer of $12,400.[2]
- Committee chairs receive an annual retainer of $7,200.
- Other directors receive an annual retainer of $6,200.
- All directors, including the Chair, receive a per diem of $485 for meetings, training sessions, travel time and FCC-sponsored events.
- Directors are reimbursed for all reasonable out-of-pocket expenses, including travel, accommodation and meals, while performing their duties.

During 2014-15, there were six Board meetings and 19 committee meetings. Total remuneration (annual retainer and per diems) paid to all directors was $188,316.

Total Board travel and related expenses were $171,459, compared to $146,772.11 in 2013-14.

[2] As a former member of Parliament, Dale Johnston is subject to the Members of Parliament Retiring Allowances Act. His total annual remuneration is capped at $5,000.

2014-15 Board remuneration, attendance and expenses

Director	Annual retainer (A)	Per diems (B)	Total remuneration (A & B)	Board meeting attendance	Committee meeting attendance	Board and related expenses
Don Bettle	$ 7,200	$ 14,065	$ 21,265	6 of 6	4 of 4	$ 28,081
Sylvie Cloutier	6,200	11,155	17,355	6 of 6	8 of 8	21,694
Jane Halford	2,017	3,880	5,897	1 of 1	2 of 2	3,091
Brad Hanmer	7,200	8,003	15,203	3 of 6	4 of 4	7,643
Dale Johnston	4,999	0	4,999	5 of 6	8 of 8	13,350
John Klippenstein	5,100	12,610	17,710	5 of 5	5 of 5	10,215
Collin May	6,200	8,488	14,688	6 of 6	11 of 11	16,659
Jamie Muir	6,200	15,520	21,720	5 of 6	11 of 11	13,383
Doris Priddle	6,200	12,610	18,810	6 of 6	4 of 4	28,674
Ross Ravelli	6,200	7,760	13,960	4 of 6	5 of 7	8,983
Brenda Schoepp	7,200	14,550	21,750	6 of 6	4 of 4	11,411
Jason Skinner	7,200	7,760	14,960	6 of 6	4 of 4	8,276
Total	**$ 71,916**	**$ 116,400**	**$ 188,316**			**$ 171,459**

There were six Board meetings as well as seven Audit, four Corporate Governance, four Human Resources and four Risk committee meetings.

We're responsible for managing FCC effectively

FCC has attracted a senior team of professionals with diverse talents and experience. Our Enterprise Management Team (EMT) members are sought after as best-practice leaders in their professions and they actively volunteer in their communities. Each EMT member believes that a culture characterized by open communication and trust results in engaged employees who forge great relationships with customers. To reinforce its commitment to managing FCC as a unified team, EMT changed its name from Executive Management Team to Enterprise Management Team.

EMT is responsible for business results and corporate decision-making, including the strategic vision, investment strategy, allocation of enterprise resources and resolution of major strategic issues. All executives, with the exception of the President and CEO, are paid within salary ranges and compensation policies approved by the FCC Board of Directors. The Governor in Council establishes the President and CEO's compensation.

All executives receive a variable pay-at-risk component linked to the performance of the corporation, division and individual. In 2014-15, the salary range for the President and CEO was set at $255,200 to $300,200. The salary range for Executive Vice-Presidents was $202,295 to $356,145. The salary range for Senior Vice-Presidents was $167,260 to $255,810.

Board of Directors*

Dale Johnston Owner/operator, mixed farming operation Ponoka County, Alta. Appointed June 23, 2011 Appointed Board Chair December 13, 2012	**Michael Hoffort, P.Ag.** President and CEO, FCC Regina, Sask. Appointed July 1, 2014	**Donald Bettle** Owner, cow/calf operation and woodlot Passekeag, N.B. Appointed January 25, 2007 Reappointed February 10, 2010 and February 10, 2013	**Sylvie Cloutier, BA Comm.** President and CEO, Council of Food Processing and Consumer Products Bromont, Que. Appointed April 5, 2012 Reappointed April 5, 2015
Jane Halford Co-founder of BOLT Transition Edmonton, Alta. Appointed December 15, 2014	**Brad Hanmer, B.Sc.Ag.** Co-owner/operator, commercial grain and pedigreed seed farm Govan, Sask. Appointed January 25, 2007 Reappointed February 10, 2010 and February 10, 2013	**Collin May** Lawyer, co-founder, Legal Innovations Calgary, Alta. Appointed November 7, 2013	**Jamie Muir** Retired Truro, N.S. Appointed November 7, 2013
Doris Priddle, MBA Owner, Priddle Farms Inc. Toronto, Ont. Appointed November 26, 2012	**Ross Ravelli** Owner, Ravelli Farms Ltd. Dawson Creek, B.C. Appointed February 10, 2010 Reappointed February 10, 2013	**Brenda Schoepp** Owner, cattle and equine rescue farm President and CEO, Brenda Schoepp & Associates Publisher/owner, BEEFLINK Rimbey, Alta. Appointed February 10, 2013	**Jason Skinner,M.Sc., P.Ag.** CEO, North West Terminal Ltd. Wilkie, Sask. Appointed February 12, 2009 Reappointed March 1, 2012 and March 1, 2015

Enterprise Management Team*

Michael Hoffort President and Chief Executive Officer	**Rick Hoffman** Executive VP and Chief Financial Officer	**Sophie Perreault** Executive VP and Chief Operating Officer	**Corinna Mitchell-Beaudin** Executive VP and Chief Risk Officer
Travis Asmundson Senior VP and Chief Information Officer	**Lyndon Carlson** Senior VP, Marketing	**Greg Honey** Senior VP, Human Resources	**Greg Willner** Senior VP, Law and Corporate Secretary

*Biographies and photos are available at fcc.ca

Corporate social responsibility

The Canadian agriculture industry is strong and successful because of the hard work and passion of producers across the country who live ag every day. That's why FCC stands by our customers and the ag industry year in and year out. Giving back to communities across the country is a big part of that. But having a strong commitment to corporate social responsibility is about even more. It's about creating a great employee experience and reducing our environmental footprint.

Being a good corporate citizen is the right thing to do, and it makes good business sense. Corporate social responsibility is part of the FCC vision and values and guides how we operate.

Our corporate social responsibility framework includes five focus areas:

Agriculture and food

We support the development of a sustainable, competitive and innovative Canadian agriculture industry. We do this by providing knowledge and education and by supporting initiatives and forming partnerships that advance the business of agriculture.

Community

We foster strong and vibrant communities where our customers and employees live and work, with a focus on rural Canada.

Customers

We focus on primary producers as well as suppliers and processors along the agriculture value chain. We provide our customers with flexible, competitively priced financing, insurance, software, learning programs and other business services.

Employees

We foster a culture of accountability, partnership and diversity – and deliver an exceptional employee experience.

Environment

We improve our environmental performance and support the industry with tools and knowledge to do the same.

FCC corporate social responsibility performance

Each year, FCC reports on its corporate social responsibility performance in the areas listed above. This information is prepared using the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. GRI is a non-profit organization that promotes economic sustainability and provides a comprehensive sustainability reporting framework that's widely used around the world.

This is an exciting time for the Canadian agriculture industry and for FCC. We're proud of our progress and our ability to move our corporate social responsibility goals forward so we can continue to make a positive impact on Canadian agriculture.

For details on FCC's corporate social responsibility performance for 2014-15 and previous years, visit Corporate Social Responsibiiity on the About FCC page at fcc.ca/CSRReport.

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Caution regarding forward-looking statements

This management's discussion and analysis (MD&A) includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including, but not limited to, interest rates.

Basis of preparation of financial information

FCC's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The MD&A is intended to be read in conjunction with the March 31, 2015, Consolidated Financial Statements and the corporate plan documents.

Agriculture industry overview

FCC advances the business of agriculture by lending money to all agriculture sectors, including primary producers, agribusinesses and food processors. FCC monitors a number of important factors that influence the short- and long-term prospects, profitability and financial health of each sector.

Farm asset values reach record highs

Farm asset values have steadily increased, driven by a robust agriculture economy. Asset values increased 12.1% in 2013, which was a larger increase than the five-year (2008-12) average of 7.5%.[3]

Farmland values increased an average of 14.3% in 2014, reflecting recent returns in crop production and a low interest rate environment. Overall farm cash receipts remained strong, increasing 4.6% in 2014 driven by strong livestock receipts, up 18.9 % over a year ago. Crop receipts remained strong despite a small decline in 2014, showing a 3.1% decrease over 2013. The Bank of Canada lowered its overnight rate by 25 basis points in the first quarter of 2015. Low financing costs have helped farm businesses capture economies of scale and increase productivity.

Farm debt climbs at a slower pace than asset values

Total farm debt reached nearly $84.4 billion in 2014.[4] Debt has increased at an average annual rate of 5.6% over the past 10 years, pushed by intensifying pressures to remain competitive and increase productivity.

The balance sheet of Canadian agricultural producers is healthy, as farm equity increased in recent years. Farm debt is expected to continue to grow, but at a slower pace than in recent years. This is partly due to an expected slowdown in asset price increases, lower required investments after years of significant growth and projections of lower net cash income.

Trade expands for agriculture and agri-food

The landscape of Canada's access to foreign markets continues to evolve. The U.S. market accounted for 52% of Canadian agriculture and agri-food exports in 2014, compared to 60% in 2005.[5] With strong growth in emerging markets such as China and India, Canada is likely to continue to diversify its exports away from the U.S. market.

Canada is currently involved in negotiating trade agreements with India and Japan, and is a member of Trans-Pacific Partnership (TPP) talks involving Australia, Brunei Darussalam, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

A Canada-Korea Free Trade Agreement came into effect January 1, 2015. Discussions around the implementation of the Comprehensive Economic and Trade Agreement (CETA) with the European Union are ongoing. These two trade deals are likely to enable Canadian producers to grow their share in these markets. Market access, coupled with a lower Canadian dollar, will give Canadian exports a competitive advantage relative to the United States.

Overall primary agriculture profitability is strong

In 2014, Agriculture and Agri-Food Canada (AAFC) projects that total Canadian farm cash receipts (crop and livestock revenues, plus program payments) will increase by 3.6%, following a 2.0% increase in 2013. Based on the first three quarters of 2014, farm cash receipts are expected to increase in Quebec, Ontario, Manitoba, Saskatchewan, Alberta and British Columbia, while they are expected to decline in all Atlantic provinces.[6]

[3] Statistics Canada, Table 002-0020 – Balance sheet of the agricultural sector, at December 31, and ratios, annual (dollars unless otherwise noted), CANSIM (database).
[4] Statistics Canada, Table 002-0008 – Farm debt outstanding, classified by lender, annual (dollars), CANSIM (database).
[5] Statistics Canada, based on NAICS Codes
[6] Statistics Canada, Table 002-0002 – Farm cash receipts, quarterly (dollars)

U.S. producers harvested a record corn crop and their third largest soybean crop in 2014. Other parts of the world, including Canada, experienced some production issues that reduced yields and lowered quality. The record U.S. production pushed commodity prices lower for major grains and oilseeds, while production issues provided market opportunities for other crops. Hog and cattle producers received higher prices due to improved demand and lower supply. Lower feed costs overall supported much higher profitability in 2014 compared to recent years.

Oil prices fell sharply in the last six months of 2014, leading to lower gasoline and diesel prices. Natural gas prices moved higher in 2014. Overall, the energy bill of producers was lower in 2014-15 compared to recent years, which supported profits at the farm level.

Livestock sectors responding to consumer demands

U.S. country of origin labelling (COOL) requirements continue to disrupt the beef and hog supply chains in Canada and the United States. The World Trade Organization (WTO) ruled in favour of Canada and Mexico that COOL legislation is trade distorting, allowing for these countries to implement retaliatory tariffs against the United States. In reaction to the WTO ruling, some steps have been taken that would repeal the legislation and return free trade between Canada and the United States for the livestock sector.

Consumers are increasingly aware of food safety issues and some interest groups are expressing concern about the treatment of Canadian livestock. Canada's livestock sectors are responding by implementing new codes of practice, regulations, and advances in traceability and transparency. Specific to the hog and poultry sectors, they have responded by implementing codes of practice related to the phasing out of gestation crates for hogs and increasing the cage size for poultry.

Recent campaigns by food retailers looking to differentiate their products have resulted in increased attention to the use of antibiotics, hormones and steroids in livestock. These products are only used to treat sick or injured animals in most production systems. In the beef sector where these products are more common, the industry continues to evaluate and minimize their use and educate consumers about their safety.

Sector overview

Beef and cattle industries enjoy a record year

The Canadian and U.S. cattle industries are closely integrated due to strong trade relations and logistics. The U.S. industry is significantly larger and, as a result, largely drives the profitability trends for Canadian producers. However, a case of bovine spongiform encephalopathy (BSE) in Canada has resulted in trade restrictions to six countries, representing roughly 5% of total beef exports. This isn't expected to have a major impact on the industry in 2015 as Canada's border with the United States remains open and demand remains extremely strong.

Heifer retention increased from 2011 through 2013 and declined slightly in 2014, indicating that the cattle herd will likely remain relatively unchanged in 2015. Lower inventories and strong world demand for beef have increased cattle prices relative to the previous five-year average. While prices have eased in the United States, the 2014-15 decline in the Canadian dollar has supported very strong prices in Canada.

Dairy producers face a number of challenges

The Canadian dairy sector has operated under a supply management system since the early 1970s with the objective to provide fair and stable returns to producers.

Overall, the Canadian dairy industry remains stable as population growth has increased demand for dairy products despite declines in per capita consumption. Recent trade negotiations have been accompanied by heightened media coverage about the future of supply management.

When CETA is implemented, the European Union will be able to export tariff-free an additional 16,000 tonnes of cheese to Canada each year. The anticipated growth in imports is expected to be partly mitigated by increased consumption of cheese. Population growth is expected to continue to increase overall demand for dairy products in Canada, however, CETA will allow imports to capture a greater proportion of the demand growth.

Canada's dairy sector is expected to remain profitable despite these challenges. Declining feed prices in 2014 helped improve margins for producers after years of increasing feed prices. In January 2015, the Canadian Dairy Commission decreased support prices for skim milk powder by 1.8% and left the support price for butter unchanged. The decline in the support price is due to a lower cost of production resulting from lower feed costs, reduced milk transportation costs, lower fuel prices and low interest rates. This is the first time support prices have declined in 22 years. However, expansion of production quota will support strong cash receipts for 2015.

Grains and oilseed production challenging, but profitable

Following a record crop in 2013, Canadian grain and oilseed production in 2014 was significantly lower, but still above the five-year average. Excessive precipitation in parts of the country lowered quality and reduced yields.

Wheat, canola, corn and soybean prices for the year were above their historical averages. Projections are that corn and soybean inventories will be higher at the end of the 2014-15 marketing year because of very large U.S. harvests. As a result, Canadian producers had tighter margins in 2014-15. However, with the improvement in the movement of grain to port, basis levels eased and the total grain marketed was higher, supporting strong receipts.

The 2015 Canadian Agricultural Outlook of AAFC and the United States Department of Agriculture (USDA) Agricultural Projections to 2024 state that grain and oilseed prices will likely remain above their respective historical averages. This will be driven by increased demand from developing countries for coarse grains and oilseeds, along with domestic demand from livestock producers, biofuel manufacturers and vegetable oil crushers.

Worldwide demand for fertilizer has not softened nearly as much as was expected due to lower grain and oilseed prices. As a result, fertilizer prices remained relatively high.

Greenhouse, nursery and floriculture producers post higher revenues

Greenhouse, nursery and floriculture operations generally recorded positive profit margins in 2014, due to higher cash receipts. Higher revenues were partially offset by higher natural gas prices, which were 11.0% higher in 2014 than the previous year and higher than the five-year average.[1]

Cash receipts from greenhouse vegetables were 17.0% higher through the first three quarters of 2014 compared to the previous five-year average of the first three quarters. Receipts for field vegetables and floriculture were 5.7% and 1.3% higher, respectively.

Competition from U.S. and Mexican imports remains strong, reducing the profitability of some Canadian greenhouse growers. The decline in the Canadian dollar has eased some of the competitive pressures as it makes imported produce more expensive in the Canadian market.

Hog producers enjoy a strong year

Profit margins of hog producers were extremely strong in 2014, after several challenging years. Improved margins were the result of declining feed costs and stronger hog prices. The strength in pricing came from the impacts of the porcine epidemic diarrhea (PED) virus in the United States, which resulted in the loss of over three million market hogs in that country. While PED virus affected some producers in Canada,

[1] Statistics and Data Development Branch, Economics and Competitiveness Division, Alberta Agriculture and Rural Development

co-ordination between industry, veterinarians and government significantly reduced the impact to the Canadian hog sector. In 2015, the U.S. hog herd is expected to rebuild, reducing hog prices and tightening margins. The decline in the Canadian dollar will help shield producers from the full impact.

Hog inventories were 2.7% higher on January 1, 2014, compared to January 1, 2013.[8] Federally and provincially inspected hog slaughter decreased by 2.0% in 2014 compared to 2013.[9] Hog exports to the United States increased 25% through November 2014 compared to the same period in 2013.

Poultry and egg production is stable

Most poultry and egg producers in Canada are specialized. They produce table or hatching eggs, or a specific weight of maturity for chicken or turkey. Provincial marketing boards balance the supply and demand of products in each province. Poultry and egg products are used domestically and only a small amount is sold internationally.

Similar to the dairy sector, poultry producers operate under a supply management structure. Most of the attention around trade negotiations has focused on access to Canada's dairy market. Canada's poultry sector is not expected to face significant pressure from current trade negotiations.

Chicken slaughter increased 2.7% in 2014 compared to 2013. Overall egg production increased 1.2% between January and October 2013 compared to the previous year. The average farm gate price of eggs increased 7.2%.[10]

Agribusiness and food processors face challenging demand conditions

Agribusinesses provide inputs or goods and services to primary producers, while agri-food operations purchase and process the outputs of primary producers. As the domestic and world economies continue to improve, stronger consumer demand creates more opportunities for food processors.

The U.S. market remains important. According to Industry Canada, over 70% of Canadian agri-food (food and beverage manufactured) exports are destined for the United States.[11] One of the most commonly cited challenges in Canada's food sector is the growing regulatory challenge to bring products to the domestic market and then move them to global markets. Another major challenge is the shortage of qualified labour throughout the country. The strength of the Canadian dollar has been challenging in recent years because it made Canadian exports less competitive on the world stage. However, the dollar's decline over the past year should bring relief to food manufacturers.

Despite these challenges, foreign demand for Canadian agri-food products resulted in strong exports in 2014. Yet, Canada's food manufacturing trade balance continued to worsen as import penetration increased faster than exports.

Farm input suppliers saw strong demand for their products. Farm equipment sales were stronger in 2014 than in 2013, but this growth mostly came from the small tractor segments and other equipment for livestock producers, who enjoyed a good year. Large farm equipment sales such as combines were down more than 20% in 2014, the result of a more difficult year for grain and oilseed producers.

[8] Statistics Canada. Table 003-0100 – Hogs statistics, number of hogs on farms at end of semi-annual period (head), CANSIM (database).
[9] Agriculture and Agri-Food Canada – Statistics and Market Information – Red Meat Market Information.
[10] Statistics Canada. Table 003-0022 – Production and disposition of eggs, monthly (layers unless otherwise noted), CANSIM (database).
[11] Statistics Canada. Table 379-0031 - Gross domestic product (GDP) at basic prices, by North American Industry Classification System (NAICS), monthly (dollars x 1,000,000), CANSIM (database).

Current and potential impacts for FCC

The agriculture industry remains strong and FCC experienced growth this year in all major business lines, including primary producers, agri-food operations and agribusinesses. Although the Canadian economy is sluggish, FCC still anticipates continued growth in the agricultural sectors and lending portfolio across all sectors. FCC has balanced its risks by having a well-diversified lending portfolio. FCC is able to achieve this by financing customers involved in all areas of agriculture across Canada.

FCC has experienced 22 consecutive years of portfolio growth. Revenue and administration expenses have increased in relation to its product and service offerings, overall loan portfolio and additional costs related to enhanced risk management. However, the ratio between expenses and revenue remains strong and FCC continues to closely monitor its budget and spending throughout the year.

FCC remains financially strong. Along with $5.1 billion in equity and loan loss reserves, the corporation continues to focus on enhancing its strong risk management practices to keep pace with the growing complexity of the business. FCC has implemented a formal capital management framework and policy, and is currently above its targeted capital level.

FCC continues to closely monitor external and internal trends, assess their implications and create proactive strategies to address those implications. FCC remains committed to continuously improving and investing in its enterprise risk management practices.

Strategic overview

FCC advances the business of agriculture by offering financing to all sectors, including primary producers, agri-food operations and agribusinesses. FCC shares business management knowledge and training with customers, free of charge. FCC also offers management accounting software designed specifically for agriculture. With a single industry focus, FCC invests profits back into agriculture through increased lending and by developing products and services, and enhances communities through its corporate social responsibility initiatives.

FCC is financially strong and stable, and serves the industry through all cycles. Its employees are passionate about agriculture and committed to the success of FCC's customers and the industry.

FCC's strategic direction is aligned with the Government of Canada and the Statement of Priorities received from the Minister of Agriculture and Agri-Food.

Corporate strategy

FCC uses a corporate scorecard to monitor and measure progress against its corporate strategy. To achieve its vision and mission, FCC has developed objectives and initiatives that are categorized under five strategic themes:

- sustainable business success
- great customer relationships
- effective enterprise risk management (ERM)
- operational efficiency
- high-performance culture

Within each theme, FCC sets one- to five-year plan performance measures (Plan) that define how FCC will measure its progress each year against the objectives set out in the strategy. The overall approach for 2015-16 is to stay the course, focusing our strategy on FCC's strategic assets.

When FCC accomplishes its corporate objectives within the five strategic themes, FCC is successful and achieves its vision and mission. Together, these elements form the FCC corporate strategy map.

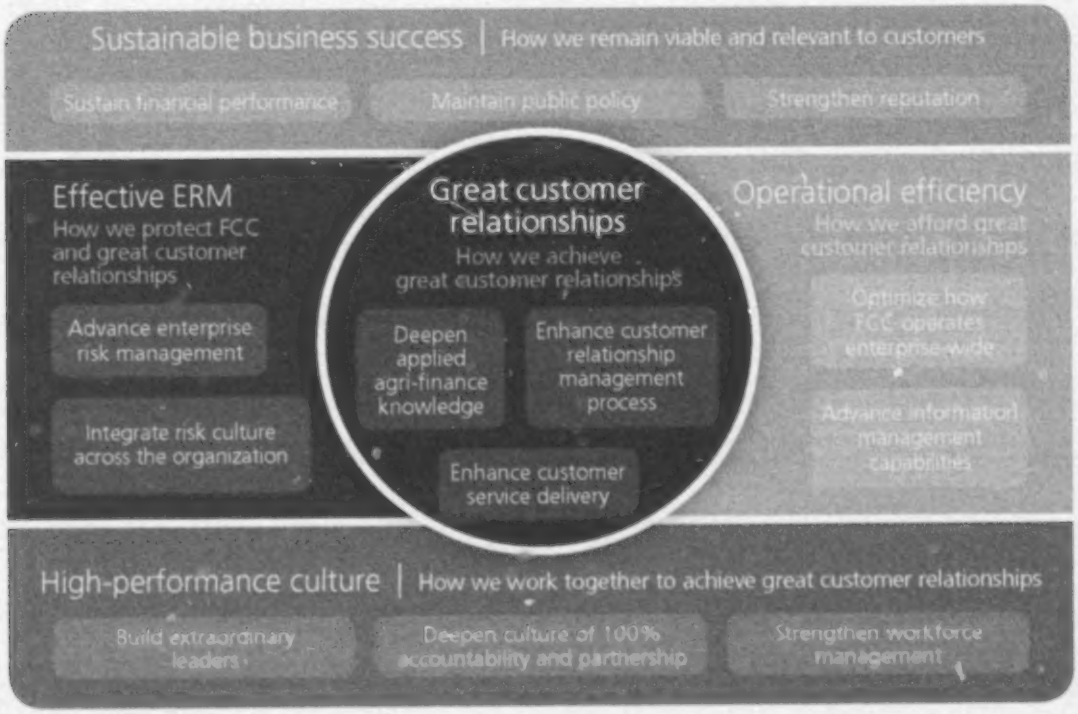
FCC corporate strategy map

Vision

The full agriculture and agri-food value chain believes FCC is *advancing the business of agriculture*.
We are the place to obtain financial products, services and knowledge tailored to producers and agribusiness operators.
Our customers are advocates of FCC and can't imagine doing business without us.
We are a socially and environmentally responsible corporation.
FCC is an employer of choice everywhere we operate.
We make it easy for customers and employees to do business.
We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.

Mission

To enhance rural Canada by providing specialized and personalized business and financial solutions to farm families and agribusiness.


Sustainable business success | How we remain viable and relevant to customers
Sustain financial performance
Maintain public policy
Strengthen reputation
Effective ERM
How we protect FCC and great customer relationships
Advance enterprise risk management
Integrate risk culture across the organization
Great customer relationships
How we achieve great customer relationships
Deepen applied agri-finance knowledge
Enhance customer relationship management process
Enhance customer service delivery
Operational efficiency
How we afford great customer relationships
Optimize how FCC operates enterprise-wide
Advance information management capabilities
High-performance culture | How we work together to achieve great customer relationships
Build extraordinary leaders
Deepen culture of 100% accountability and partnership
Strengthen workforce management

Sustainable business success

How we remain viable and relevant to customers

Performance Measures	2012-13 Result	2013-14 Result	2014-15 Plan	2014-15 Actual	2015-16 Plan	2016-17 Plan
Sustain financial performance						
Net income	$503.6 million	$642.0 million	$490.5 million	$908.1 million	$537.9 million	$531.1 million
Return on equity	16.1%	17.0%	12.2%	20.4%	10.5%	9.5%
Capital adequacy measure	N/A – new measure in 2013-14	> 100%	Greater than or equal to 100%	136.0%	Total capital ratio greater than or equal to 15%	Total capital ratio greater than or equal to 15%
Maintain public policy						
Ag media favourability	N/A – new measure in 2013-14	Annual average 66.2	Greater than or equal to global media favourability score	73 (20 points greater than the global media score of 53)	No longer required	No longer required
Percentage of customer count in small- and medium-sized segments[1]	N/A – new measure in 2014-15	N/A – new measure in 2014-15	> 90%	94.0%	> 80%	> 80%
Young farmer lending	$2.3 billion	$2.3 billion	$2.1 billion	$2.4 billion	$2.4 billion	$2.5 billion
Strengthen reputation (with all stakeholders)						
Media favourability	11 points above global average for financial institutions	10 points above global average for financial institutions	7 points above global average for financial institutions	10 points above global average for financial institutions	7 points above global average for financial institutions	7 points above global average for financial institutions

[1] The methodology for calculating this measure changed between 2014-15 and 2015-16. As a result, Plan has also changed.

Key results – 2014-15 Corporate Plan objectives

Sustain financial performance

FCC is committed to remaining financially viable and self-sustaining in the long term and has three measures and three corporate initiatives. Both net income and ROE exceeded Plan while capital adequacy met Plan. Corporate initiatives for this theme were expense management and control, implementing the capital management framework, and a feasibility study looking at loan securitization, which were delivered as planned.

Maintain public policy

As a Crown corporation, FCC plays an important role in filling financing gaps for Canadian producers and agribusiness operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital. FCC has three measures and four corporate initiatives to track progress on this objective. Ag media favourability and young farmer lending exceeded Plan while the percentage of small- and medium-sized segments was achieved. Corporate initiatives for this theme included programs to enhance support provided to young farmers, corporate social responsibility, positive dialogue about Canadian agriculture and maintaining focus on small- to medium-sized customers. All four corporate initiatives were delivered as planned.

Strengthen reputation with all stakeholders

Customers want to deal with companies that have high values and standards. FCC's reputation and progress on this objective is tracked through an external media favourability index, which measures media coverage about the corporation. The score for this measure was exceeded. Enhance integrated multi-stakeholder strategy is the corporate initiative for this objective and was delivered as planned.

Great customer relationships

How we achieve great customer relationships

Performance Measures	2012-13 Result	2013-14 Result	2014-15 Plan	2014-15 Actual	2015-16 Plan	2016-17 Plan
Enhance smart lending process						
Easy to do business – CEI measure	N/A – new measure in 2013-14	62.0%	62.0%	63.7%	62.5%	63.0%
Deepen applied agri-finance knowledge						
Follow consistent relationship management process						
Customer experience index (CEI)	64.1%	62.4%	61.5%	63.6%	62.0%	62.5%

Key results – 2014-15 Corporate Plan objectives

Enhance smart lending process

FCC strives for lending processes that are efficient, integrated and consistent, allowing FCC to effectively manage risk while providing its customers with an extraordinary experience. Progress on this objective is tracked through the Easy To Do Business index from the CEI measure and Plan was exceeded. Three corporate initiatives were planned for this objective. Alliance delivery strategy and optimizing the credit decision process were delivered as planned while the personal property loan was delayed to next year to ensure sufficient system and process readiness.

Deepen applied agri-finance knowledge

FCC prides itself on its knowledgeable agriculture-lending team, which is responsive, solution-focused, understands agricultural risk and applies its knowledge every day to serve FCC's customers. Two corporate initiatives – provide sense-making on emerging issues and enhance knowledge offerings – were delivered as planned.

Follow consistent relationship management process

FCC's approach to customer relationship management is proactive, innovative and highly disciplined. The CEI is used to measure progress, which exceeded Plan. Significant work has been done on this objective in earlier years. As a result, there was no corporate initiative this year.

Effective enterprise risk management

How we protect FCC and great customer relationships

Performance Measures	2012-13 Result	2013-14 Result	2014-15 Plan	2014-15 Actual	2015-16 Plan	2016-17 Plan
Advance applied enterprise risk management (ERM) maturity						
ERM maturity measure	1.8	2.9	3.4	3.2	3.6	3.7
Increase risk management awareness and sophistication (within employee mindsets)						

Key results – 2014-15 Corporate Plan objectives

Advance applied ERM maturity

FCC applies an ERM approach to manage risks across the corporation in a consistent, co-ordinated manner. FCC uses an ERM maturity measure to track progress on this objective. All elements of Plan were implemented and will be achieved in early 2015-16. The corporate initiative – implement enterprise risk management program – was delivered as planned.

Increase risk management awareness and sophistication (within employee mindsets)

The objective to integrate risk culture across FCC requires that employees understand the corporation's risk appetite statement and base decisions to take, avoid or accept risk within the spirit of the statement. While there is no measure associated with this objective, there is one initiative – increase employee understanding and accountability for risk management across FCC – which was delivered as planned.

Operational efficiency

How we afford great customer relationships

Performance Measures	2012-13 Result	2013-14 Result	2014-15 Plan	2014-15 Actual	2015-16 Plan	2016-17 Plan
Optimize how FCC operates enterprise-wide						
Efficiency ratio	36.8%	39.0%	39.9%	35.6%	38.5%	40.7%
Employee engagement – easy to do business	83.0% (5.4% above Plan)	76.2% (1.6% below the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	75.6% (1.8% below the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
Enhance information sharing and usability						

Key results – 2014-15 Corporate Plan objectives

Optimize how FCC operates enterprise-wide

FCC continually seeks better ways for employees to perform their work and to simplify interactions for customers. FCC has two measures and one initiative to track progress on this objective. FCC achieved the efficiency ratio Plan but did not achieve the employee engagement – easy to do business Plan, which is tracking slightly lower than the average score for the 50 Best Employers in Canada. The implement technology portfolio optimization strategy initiative was delivered as planned.

Enhance information sharing and usability

Managing corporate information will help FCC become more efficient and effective. FCC delivered the two initiatives for this objective, implementing enhanced collaboration capabilities and a secure phase of Interactive and Online Services.

High-perfomance culture

How we work together to achieve great customer relationships

Performance Measures	2012-13 Result	2013-14 Result	2014-15 Plan	2014-15 Actual	2015-16 Plan	2016-17 Plan
Build extraordinary leaders						
Leadership index: subset of employee engagement survey data with respect to leadership indicators	81.0% (9.0% above Plan)	79.8% (7.6% above the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	77.6% (5.8% above the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
Deepen culture of 100% accountability and partnership						
Employee engagement	86.0% (7.0% above Plan)	81.0% (3.0% above average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	79.0% (2.0% above the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
Employee engagement index: subset of employee engagement survey data with respect to employee experience indicators	82.0% (6.4% above Plan)	79.8% (4.0% above average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	78.4% (3.2% above the average of the 50 Best Employers)	Greater than the average of the 50 Best Employers	Greater than the average of the 50 Best Employers
Strengthen workforce management						
Diversity measure	N/A – new measure in 2013-14	Diversity gap reduced by 17	Hire a net of 5 diversity candidates	Net hire of -4	Hire 6 diversity candidates	Hire 6 diversity candidates

Key results – 2014-15 Corporate Plan objectives

Build extraordinary leaders

Strong and consistent leaders support a great employee experience and lead to increased ability to attract and retain the skills needed to carry out FCC's strategy. To measure the quality of leadership across the corporation, FCC has developed a leadership index (sub-index of employee engagement survey data) to gauge employee perceptions about the effectiveness of their leaders. FCC achieved Plan and delivered the enhance leadership effectiveness initiative as well.

Deepen culture of 100% accountability and partnership

FCC's culture is the foundation of its overall employee experience. To measure its performance on creating the desired employee experience, FCC monitors and analyzes a sub-index of the employee engagement results that measure how employees feel about their workplace environment and their relationships with their leaders. FCC met both the employee engagement and the employee engagement index Plan and delivered the three-year culture strategy initiative.

Strengthen workforce management

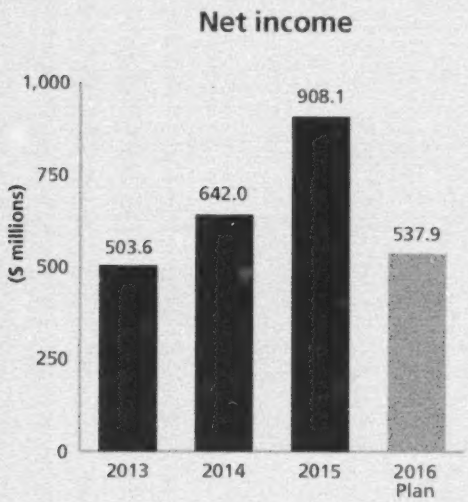
Workforce management is a strategic business process that helps FCC make the right talent decisions to deliver on business priorities. This process is essential to FCC's continuing success because it ensures that the corporation has the knowledge, skills and attributes to meet its long-term goals. To measure its performance, FCC developed a diversity measure, which it did not meet this year due to the fact that the number of exits has outpaced FCC's recruitment efforts. Two corporate initiatives were delivered as planned. FCC implemented a succession strategy for senior leaders and also renewed its diversity strategy and employment equity plan.

Financial performance review

Consolidated operating results

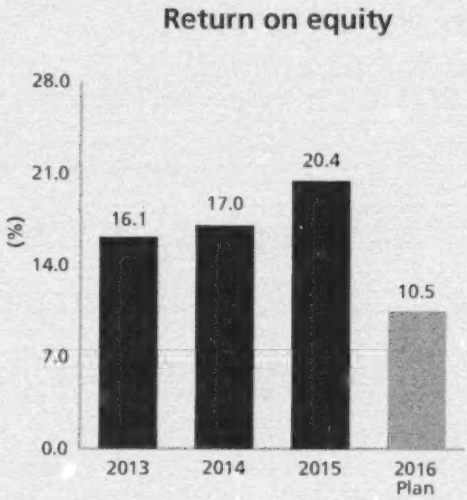
Net income overview

FCC's 2014-15 net income increased by $266.1 million from the previous fiscal year primarily due to a large recovery of provision for credit losses, an increase in net interest income and a decrease in administration expense. These factors were partially offset by a decrease in other income and fair value adjustment. In 2014-15, continued advancement of risk and capital management practices at FCC resulted in enhancements in credit risk measurement and loan loss estimates. The result is a one-time adjustment to the amount FCC sets aside for an allowance for credit losses through provision for credit losses and a significant increase in net income. See Note 8 of the Notes to the Consolidated Financial Statements for additional details on the allowance for credit losses. Net income is projected to return to a more normal level in 2015-16, due mainly to a higher provision for credit losses and increased administration expense.



Return on equity

Return on equity increased to 20.4% in 2014-15 from 17.0% in 2013-14 primarily due to increased net income. Return on equity is projected to decrease to 10.5% in 2015-16 due to an increased equity base and lower net income.



Net interest income and margin

Changes in net interest margin and portfolio volume are the primary causes of changes in net interest income. The following table contains historical net interest margins and interest rate spreads. Interest rate spreads are the difference between interest rates earned on interest-earning assets and interest rates paid on interest-bearing liabilities.

Net interest margin

	2015		2014		2013	
($ millions)	Average Balance	Rate	Average balance	Rate	Average balance	Rate
Earning assets:						
Fixed loan principal balance	9,670.1	4.37%	9,275.8	4.53%	8,601.3	4.92%
Variable loan principal balance	16,899.6	3.94%	16,184.1	3.98%	15,510.0	3.94%
Investments	1,135.2	1.04%	1,086.8	1.06%	1,079.0	1.05%
Venture capital investments	146.0	4.58%	100.7	4.06%	61.6	3.14%
Total earning assets	27,850.9	4.09%	26,647.5	4.17%	25,251.8	4.23%
Total interest-bearing liabilities	23,349.3	0.86%	22,596.9	0.99%	21,581.1	1.00%
Total interest rate spread		3.23%		3.18%		3.23%
Impact of equity		0.10%		0.14%		0.14%
Net interest margin		3.33%		3.32%		3.37%

In 2014-15, both variable and fixed interest lending rates decreased compared to 2013-14. The fixed lending rates continued a decreasing trend as new and renewed lending was impacted by the lower interest rate environment. Variable lending rates decreased primarily due to a drop in the prime rate in the last quarter of the fiscal year. Venture capital investment rates increased in 2014-15 primarily due to interest earned from the growing subordinated debt fund, along with increased interest and dividends earned from the other funds.

In 2014-15, interest rates on the corporation's interest-bearing liabilities were lower than 2013-14. This is primarily due to higher fixed-rate funding maturing and a low interest rate environment in 2014-15.

The corporation funds a portion of its loan portfolio using its available equity, which contributed to net interest margin by 0.10% in 2014-15. This decreased primarily due to a reduction in interest rates compared to last year.

The following table outlines the year-over-year increases to net interest income, including those caused by changes in portfolio volume and net interest margin.

Net interest income and margin

($ millions)	2016 Plan	2015	2014	2013
Net interest income	958.4	938.2	889.7	854.0
Average total assets	29,525.0	28,138.4	26,793.1	25,310.7
Net interest margin (%)	3.25	3.33	3.32	3.37
Year-over-year change in net interest income due to:				
Increases in volume	34.4	36.6	45.3	71.2
Changes in margin	(14.2)	11.9	(9.6)	(14.4)
Total change to net interest income	**20.2**	**48.5**	**35.7**	**56.8**

FCC's net interest income increased by 5.5% in 2014-15 to $938.2 million. Average total assets increased by 5.0% to $28,138.4 million primarily due to increased loans receivable. Net interest margin increased by 0.01% primarily due to lowering borrowing costs. Net interest margin is expected to decrease to 3.25% in 2015-16 due to increasing borrowing costs in variable-rate debt.

Non-interest income

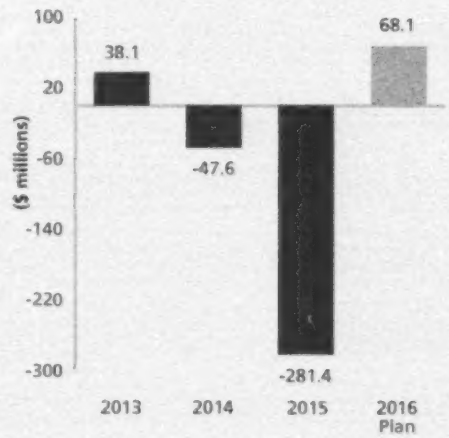
FCC generated other income of $14.1 million through FCC Ventures, FCC Insurance and FCC Management Software. This was a decrease compared to 2013-14 and was primarily due to a large realized gain from the sale of a venture capital investment recorded in 2013-14. Non-interest income is expected to be $14.6 million in 2015-16.

Provision for credit losses

The provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the appropriate level.

The provision for credit losses decreased by $233.8 million from 2013-14, resulting in a recovery of $281.4 million in 2014-15. The increased level of recovery was mainly due to the one-time adjustment to the allowance for credit losses along with an improvement in portfolio health. This was partially offset by an increase in the allowance required to support the growth in loans receivable. See Note 8 of the Notes to the Consolidated Financial Statements for additional details on the allowance for credit losses. In 2015-16, the provision is expected to increase to $68.1 million, due to portfolio growth and consistent portfolio credit risk. The allowance as a percentage of closing loans receivable is expected to be 0.95%.

Provision for credit losses



Administration expense

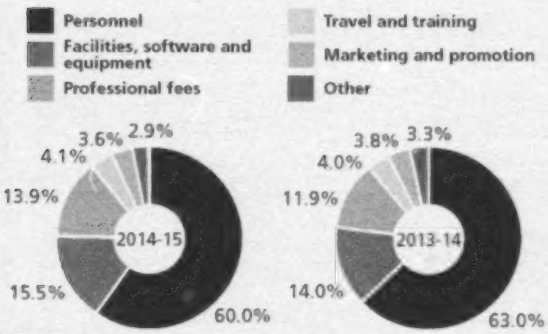
FCC's administration expenses represent the costs associated with day-to-day operations and the costs related to specific projects that support operations and the achievement of strategic objectives. The efficiency ratio measures the percentage of income earned that is spent on business operations. A low efficiency ratio indicates efficient use of corporate resources. FCC's efficiency ratio decreased from 39.1% in 2013-14 to 35.6% in 2014-15, primarily due to higher net interest income and decreased administration expenses.

The decrease in administration expense was primarily due to a decrease in personnel expense, specifically a reduction in pension expense, which was partially offset by increased professional fees and facilities, software and equipment expense.

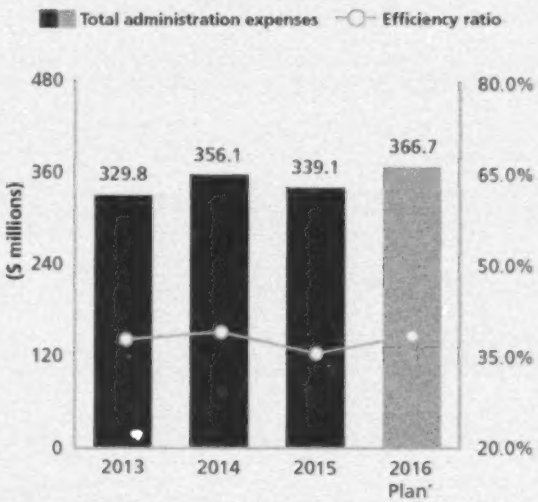
As indicated in the chart below, personnel expenses were the largest component representing 60.0% of the total administration expenses in 2014-15.

Total administration expenses are projected to increase to $366.7 million in 2015-16 and the efficiency ratio is expected to rise to 38.5% as cost reduction initiatives are offset by expected increases related to enterprise risk management initiatives, employee benefits, facilities costs, general inflation and a lower net interest income. FCC will continue to focus on delivering services in an efficient manner, focusing on revenue-generating activities and ongoing organizational cost management. At the same time, additional expenditures on non revenue-generating activities will be required to implement industry best practices for enterprise risk and capital management. Ensuring best practices for enterprise risk and capital management provides FCC with a strong defence against potential financial losses.

Administration expenses by category



Administration expenses



*Updated to better reflect the nature of expenses and conform to the current year presentation.

Fair value adjustment

Fair value is the amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk. FCC's fair value adjustment amount includes changes in the fair value of venture capital investments, long-term debt designated at fair value, guarantees, derivative financial assets and liabilities, and ineffectiveness of cash flow hedges. In the current year FCC discontinued all existing hedge accounting relationships. Fair value adjustment decreased by $25.5 million in 2014-15 to $13.5 million, primarily due to a $22.1 million fair value gain on the sale of a venture capital investment that was recorded in 2013-14 and changes in the fair value of hedging instruments. Fair value adjustment is expected to increase to $20.7 million in 2015-16. For additional information regarding calculation of fair value adjustment, refer to Notes 5, 18 and 19 of the Notes to the Consolidated Financial Statements.

Business lines

Overview

FCC provides financing, insurance, learning programs, software and other business services to producers, agribusinesses and agri-food operations. FCC serves more than 100,000 customers across Canada through its business lines, which include:

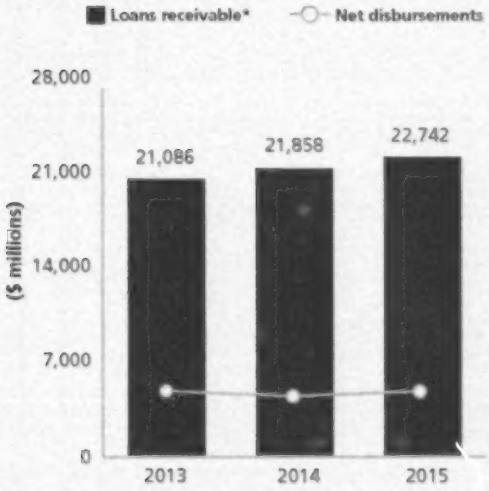
- primary production financing
- agribusiness and agri-food financing
- FCC Alliances
- FCC Ventures
- FCC Insurance
- FCC Learning
- FCC Management Software

Each business line offers specific products and services tailored to address the needs of Canadian agriculture. Lending products include standard loans with variable or fixed interest rates and many term, amortization and payment frequency options. The primary driver of FCC's financial performance is lending activity conducted through primary production financing, agribusiness and agri-food financing, and FCC Alliances.

Primary production financing provides loans to primary producers and is FCC's largest business line. Customers with loans under this business line produce raw commodities such as crops, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. This business line also includes, but is not limited to, lending to vineyards, greenhouses, forestry and aquaculture.

Primary production financing comprised 83.3% of FCC's total loans receivable balance in 2014-15. Loans receivable for primary production increased $884 million from 2013-14, resulting in a portfolio of $22,742 million in 2014-15. The rate of loans receivable growth increased to 4.0% from 3.7% the previous fiscal year. The main driver of growth in the primary production financing portfolio was net disbursements growth of 7.8% from 2013-14 to $4,997 million.

Primary production financing

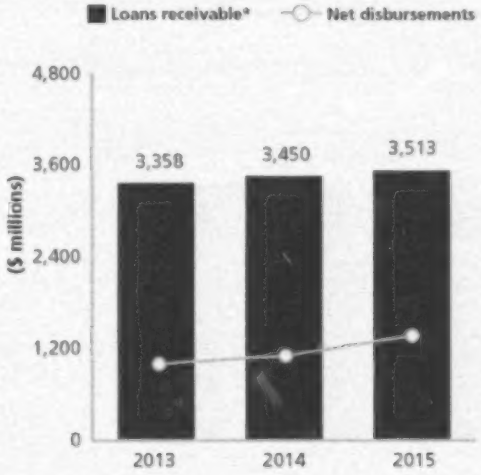


*Excludes deferred loan fees.

Agribusiness and agri-food financing provides loans to customers who support primary producers. These customers are typically suppliers or processors who sell to, buy from, or otherwise serve primary agriculture producers. They also include, but are not limited to, equipment manufacturers and dealers, input providers, wholesalers and marketing firms.

Agribusiness and agri-food financing loans receivable increased 1.8% from 2013-14 to $3,513 million in 2014-15. Net disbursements increased by 23.4% to $1,320 million.

Agribusiness and agri-food financing

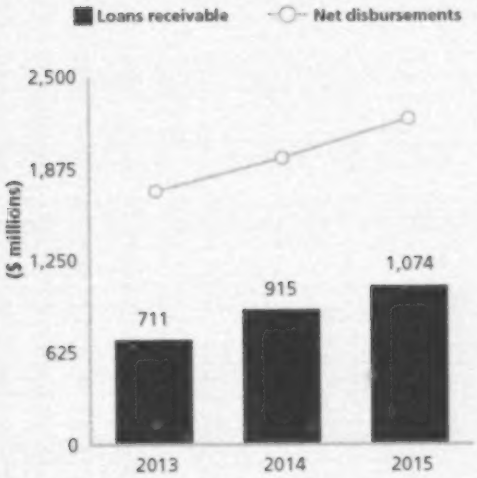


*Excludes deferred loan fees.

FCC Alliances goes beyond traditional lending to provide financing to customers who do business through contractual relationships with equipment dealers, crop input retailers, co-operatives, livestock dealers and manufacturing partners.

FCC Alliances loans receivable increased by 17.5% from 2013-14 to $1,074 million in 2014-15. Net disbursements increased by 12.5% to $2,237 million. Disbursements during the year exceeded loans receivable at the end of the year due to the short-term nature of the lending products in this business line.

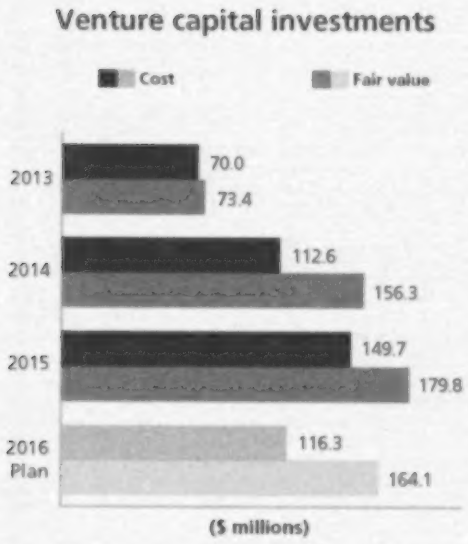
FCC Alliances



FCC Ventures is the corporation's venture capital business line addressing the need for alternative financing in the agriculture industry. The investment objectives are focused on commercialization-to-growth or the recapitalization of mature businesses in the industrial bio-products, nutraceutical ingredient, food and agricultural technology sectors.

The venture capital portfolio includes four limited partnership funds managed by Avrio Capital Inc. Avrio Fund I, II and III are a combination of debt and equity investment funds while the Avrio Subordinated Debt Fund focuses exclusively on subordinated lending. Avrio Fund I and Fund II are closed to new investment. New investments are being made through the Avrio Subordinated Debt Fund and Avrio Fund III. A new Avrio Subordinated Debt Fund is expected to launch during fiscal 2015-16 and FCC plans to participate pending a due diligence assessment.

In 2014-15, FCC Ventures earned $24.4 million in income, primarily related to fair value gains, as well as the realization of a gain from a prior divestiture. The total fair value of the venture capital portfolio increased by 15.0% from 2013-14 to $179.8 million. The increase was primarily driven by $41.0 million of investments during the period and a $23.5 million increase in fair value. The fair value is expected to decrease in 2015-16 by $15.7 million as divestitures and repayments exceed the expected increase in Avrio Fund III and Avrio Subordinated Debt Fund investments.

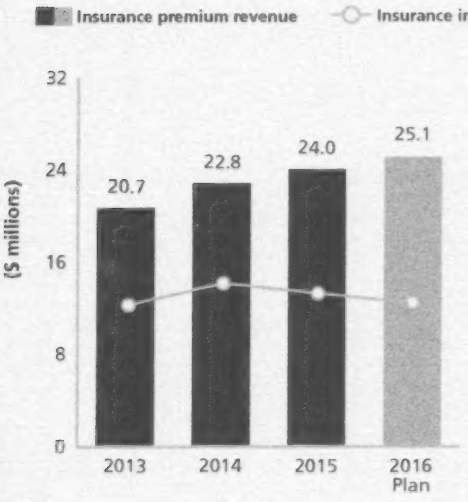


These investments brought the total funding to the agriculture industry since the inception of FCC Ventures to $173.7 million. Co-investment partners have contributed another $379.1 million to the industry during that time. Further detail of the investment carrying value amounts can be found in Note 9 of the Notes to the Consolidated Financial Statements.

FCC Insurance offers creditor life and accident insurance to protect customers and their families, partners and businesses. Sun Life Assurance Company of Canada underwrites and administers FCC's insurance programs.

Loan insurance premiums, net of claims, contribute directly to FCC's net income. FCC loan insurance premium revenue has increased consistently over the last several years as a result of FCC's growing portfolio and emphasis on insurance coverage as part of a customer's complete loan package. FCC loan insurance premium revenue increased to $24.0 million in 2014-15, compared to $22.8 million in 2013-14. Net insurance income varies from year to year depending on the claims incurred. In 2014-15, total incurred claims were $10.6 million, compared to $8.5 million in 2013-14. This resulted in net insurance income of $13.4 million in 2014-15, compared to $14.3 million in 2013-14.

Insurance income



In 2015-16, insurance premium revenue is expected to increase by 4.6% as a result of portfolio growth. Net insurance income is expected to decrease by 6.0%, due to a higher forecast for claims expense compared to prior years.

FCC Learning provides Canadian producers and agribusiness operators with information and training to help advance their farm management practices. In 2014-15, 11,652 people attended 116 core FCC Learning events. FCC's e-learning program had 166,142 people attend online webinars.

In 2015-16, FCC Learning will continue to offer a combination of e-learning and face-to-face events to meet the ever-changing business management needs of the agriculture industry.

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry. In 2014-15, net sales revenue, including product support, decreased slightly to $1.8 million. In 2015-16, sales revenue is expected to increase to $2.4 million.

Financial position

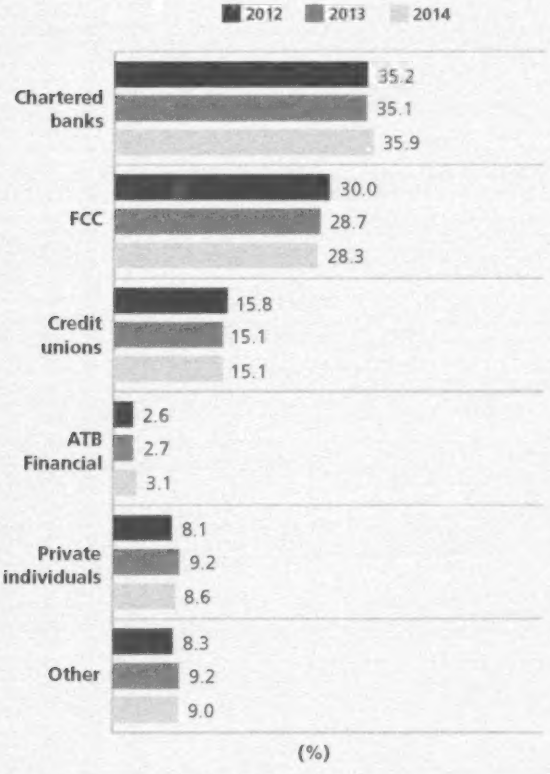
FCC continues to maintain a strong balance sheet and good risk management practices. The following section discusses FCC's financial position and provides an analysis of FCC's largest asset: loans receivable. This section also discusses FCC's credit quality, funding and liquidity, and capital management.

Loans receivable

Market share

According to Statistics Canada, farm debt outstanding increased by 6.0% to $84,420 million in 2014. FCC's market share decreased 0.4% to 28.3% in 2014. FCC's proportion of Canada's farm debt outstanding increased $1,044 million from 2014 to $23,853 million, which remains second to the chartered banks at $30,316 million.

Market share as at December 31*



*Historical results are updated annually by Statistics Canada.

Total loans receivable

In 2014-15, FCC experienced its 22nd consecutive year of portfolio growth. Loans receivable increased by $1,104 million or 4.2% from 2013-14, moving the portfolio from $26,205 million to $27,309 million. Net disbursements increased by $860 million from 2013-14 to $8,555 million. The consistent growth in loans receivable was mainly due to higher net disbursement levels compared to the previous year, offset by higher loan repayments.

Growth is expected to decrease slightly in 2015-16, with loans receivable increasing by 3.9% or $1,062 million, as a result of disbursements decreasing $3.0 million and higher repayments compared to 2014-15.

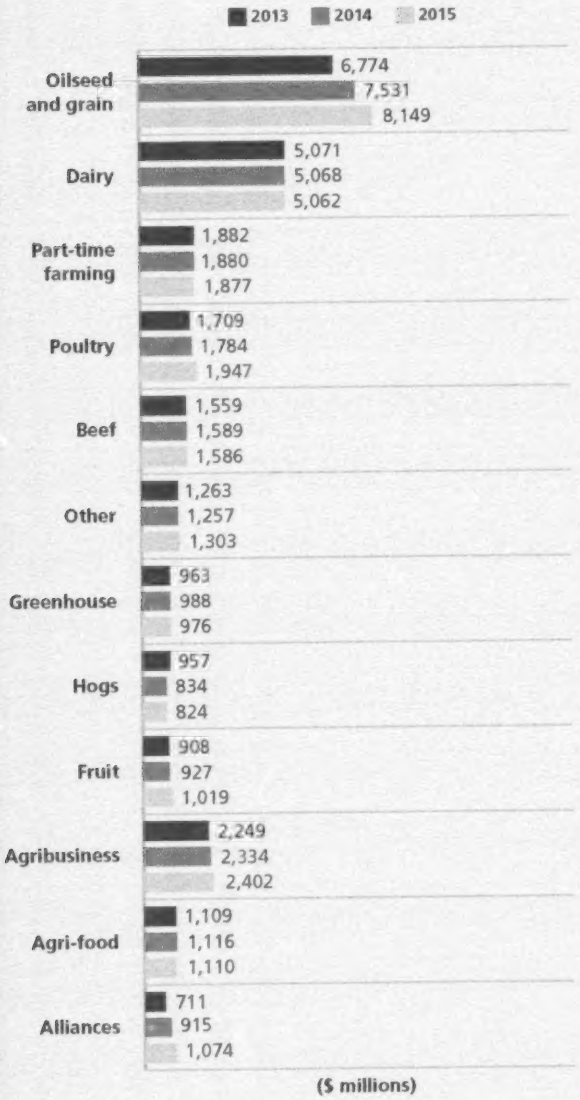
Loans receivable

Loans receivable composition by sector

FCC experienced the largest loans receivable year-over-year growth in the Alliances, fruit and poultry sectors, which increased 17.5% to $1,074 million, 9.9% to $1,019 million and 9.2% to $1,947 million, respectively. Loans receivable decreased in several sectors in 2014-15. The largest decreases were in the hogs and greenhouse sectors which decreased 1.3% and 1.2%, respectively.

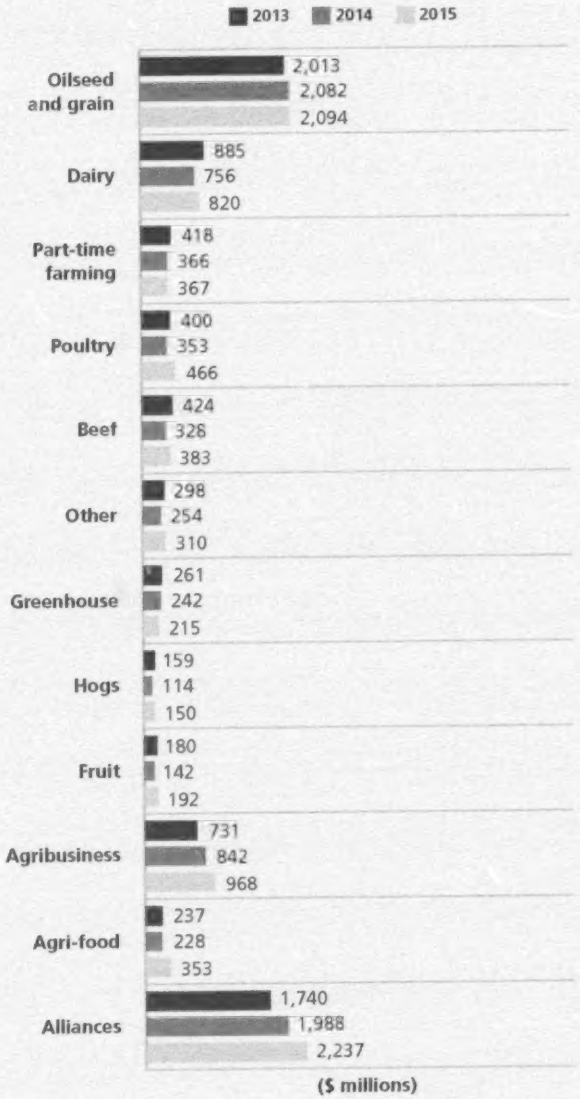
In 2014-15, net disbursements increased in all major sectors except greenhouse, which experienced an 11.2% decrease. The most significant increases in net disbursements were in agri-food, fruit, hogs and poultry, which experienced increases of 54.8%, 35.2%, 31.6% and 32.0%, respectively.

Loans receivable by sector*



*Excludes deferred loan fees.

Net disbursements by sector



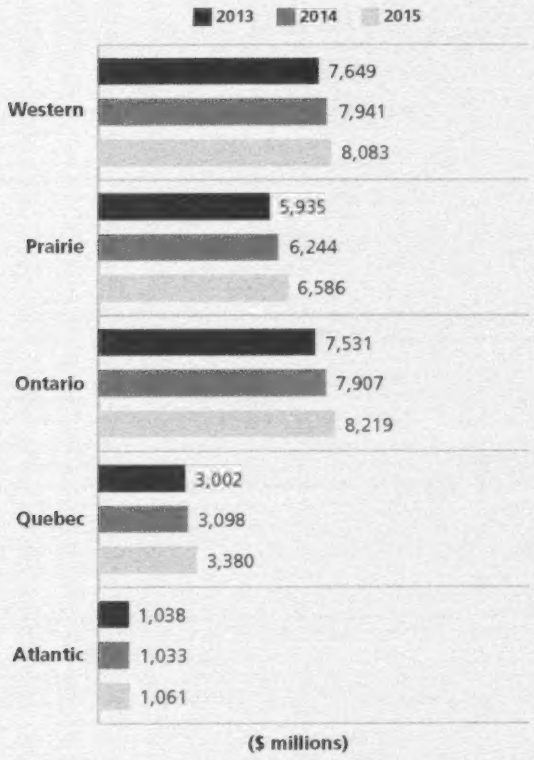
Loans receivable composition by region

By lending to all agriculture sectors across Canada, FCC spreads risk geographically while promoting agriculture as a strong and vibrant industry.

In 2014-15, FCC experienced loans receivable growth across Canada. The Ontario region was the largest individual contributor to loans receivable in 2014-15, increasing by 4.0% to $8,219 million. The second largest contributor was the Western region, which increased by 1.8% to $8,083 million in 2014-15.

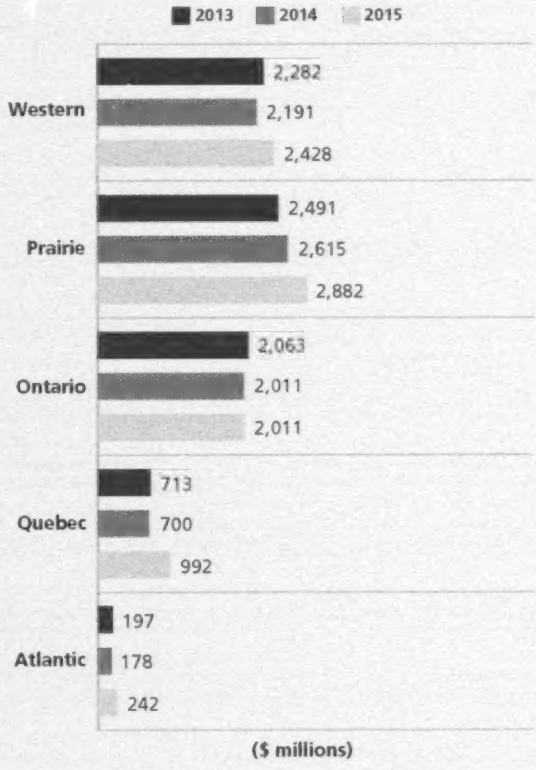
In 2014-15, net disbursements increased in all regions, with the exception of Ontario, where net disbursements stayed at $2,011 million.

Loans receivable by region*



*Excludes deferred loan fees.

Net disbursements by region



Credit quality

FCC continually monitors its portfolio and the industry to proactively identify and develop solutions to help customers through difficult times. FCC has developed customized programs and product options that provide flexibility and support customers both in times of challenge and opportunity.

FCC employs sound business practices for analyzing credit quality and monitoring loans in arrears and impaired loans. From this analysis, FCC can better assess the appropriate level of allowance for credit losses and determine whether its risks are within the acceptable tolerances.

Impaired loans

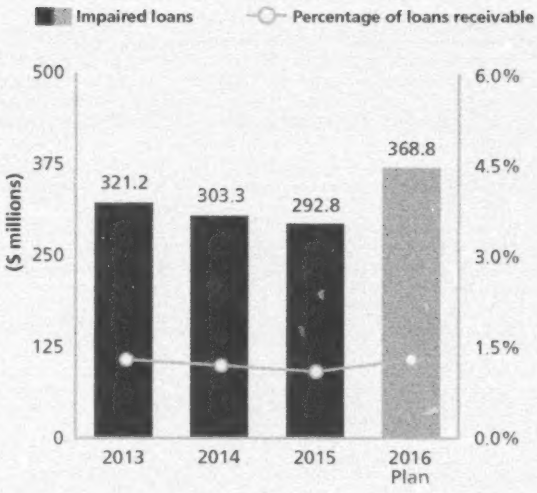
Impaired loans are loans that, in management's opinion, have no reasonable assurance of a timely collection of the full amount of principal and interest. A loan is considered impaired when it is $500 or more in arrears for more than 90 days and has insufficient security.

In 2014-15, impaired loans decreased by $10.5 million to $292.8 million. As a percentage of loans receivable, this was a decrease of 0.1% to 1.1%. In 2015-16, impaired loans are projected to increase by $76.0 million to $368.8 million in part due to growth in loans receivable.

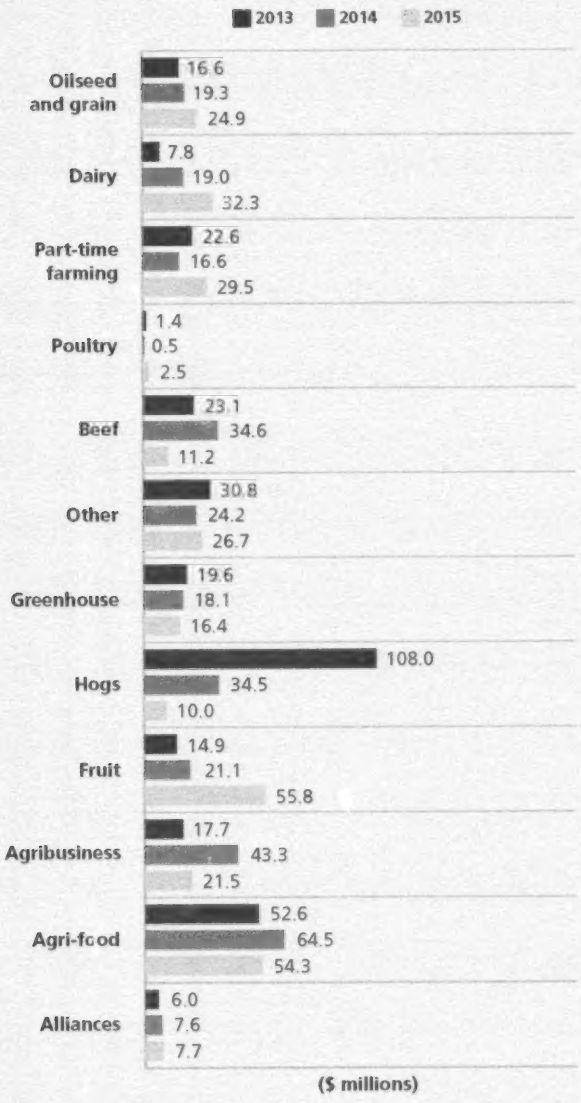
At a sector level, impaired loans for fruit, dairy and part-time farming experienced the largest year-over-year increase of $34.7 million, $13.3 million, and $12.9 million, respectively. Hogs, beef and agribusiness sectors experienced the largest year-over-year decrease of $24.5 million, $23.4 and $21.8 million, respectively.

Through its customer support programs, FCC proactively supports individual customers and sectors during financial difficulties. In 2014-15, FCC made payment schedule adjustments to 1,577 loans, 191 of which were part of its sector-specific support programs. Payment schedule adjustments as a percentage of loans receivable remained low at 2.6% in 2014-15.

Impaired loans



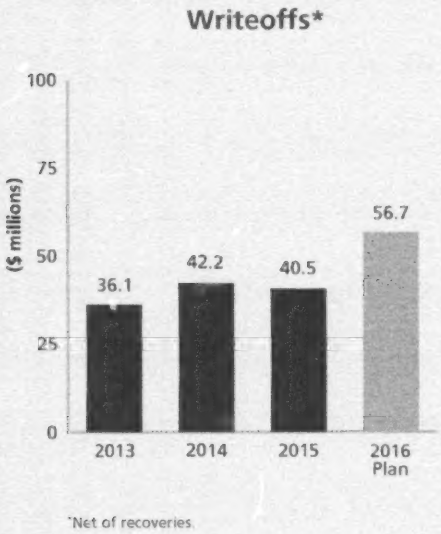
Impaired loans by sector



Writeoffs

Loan amounts deemed uncollectible by management are considered to be in default and may result in full or partial writeoffs depending on the value of security held against the loan.

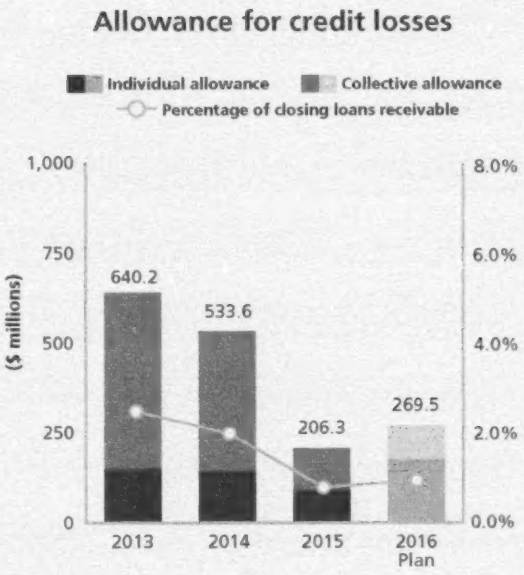
In 2014-15, the amount of writeoffs, net of recoveries, decreased to $40.5 million. Writeoffs as a percentage of loans receivable remained low at 0.1%. In 2015-16, writeoffs are projected to increase by $16.2 million to $56.7 million. Writeoffs as a percentage of loans receivable are expected to increase slightly to 0.2%.



*Net of recoveries.

Allowance for credit losses

The allowance for credit losses is an estimate used to adjust loans receivable to reflect the estimated realizable value. In addition to the use of indicators such as loans in arrears and impaired loans, management must rely on estimates and judgment when assessing the appropriate level of realizable value. These inputs, coupled with changes in the external operating environment, may cause the realized credit losses to be materially different from current assessments, requiring an increase or decrease in the allowance for credit losses.



In determining the allowance for credit losses, management segregates credit losses into two allowance components: individual and collective. The individual allowance assesses risk based on an individual review of each loan or lease in the portfolio. The collective allowance assesses risk on an aggregated basis by grouping loans and leases with similar credit risk characteristics. In 2014-15, the allowance for credit losses model has been enhanced by introducing new variables to the model while also expanding on existing variables. The new model is more predictive of loan loss and better reflects FCC's historical loss experience. For more information about the allowance calculation process and its components, refer to Note 2 and Note 8 of the Notes to the Consolidated Financial Statements.

In 2014-15, the allowance for credit losses decreased by $327.3 million to $206.3 million mainly due to the one-time adjustment related to the change in credit loss estimates. This was compounded by an improvement in portfolio health and partially offset by growth in the portfolio. See Note 8 of the Notes to the Consolidated Financial Statements for additional details.

Funding and liquidity

Funding activity

On April 21, 2008, FCC began borrowing directly from the federal government under the Crown Borrowing Program. FCC continues to carry capital market debt raised before this date.

During 2014-15, FCC raised short- and long-term funds through the following programs:

- Domestic Commercial Paper Program (for U.S. dollars only)
- Crown Borrowing Program

Short-term funding

Short-term funding consists of borrowings with a term to maturity of one year or less. Funding is raised through the Crown Borrowing Program and the Domestic Commercial Paper Program. The outstanding short-term borrowings at March 31, 2015, were $13,709 million, compared to $10,358 million at March 31, 2014. Of the total short-term borrowings outstanding, $13,349 million were funds from the Crown Borrowing Program.

Long-term funding

Long-term funding consists of borrowings with a term to maturity of more than one year, which include fixed-rate borrowings and floating-rate notes. Floating-rate notes have floating interest rates that reset based on one-month or three-month T-bill rates. The outstanding long-term borrowings at March 31, 2015, were $9,723 million, a decrease from $12,432 million the previous fiscal year. In 2014-15, all long-term borrowing was through the Crown Borrowing Program.

Credit ratings

New and outstanding capital market debt issued by FCC constitutes a direct, unconditional obligation of the Government of Canada. Moody's Investors Service and Standard & Poor's did not change FCC's debt ratings during 2014-15. FCC's debt ratings as of March 31, 2015, are detailed below.

	Long-term	Short-term
Moody's Investment Service	Aaa	P-1
Standard & Poor's	AAA	A-1+

Financial instruments

Most of FCC's balance sheet is composed of financial instruments, including cash, loans receivable and investments. The use of financial instruments exposes FCC to interest rate and, to a lesser extent, foreign exchange rate fluctuations. As part of its overall liability management, FCC uses derivatives to hedge risks and reduce income volatility to help ensure long-term profitability. Derivative risk management is discussed further in Note 5 and Note 24 of the Notes to the Consolidated Financial Statements. The fair value measurement of FCC's financial instruments is described in Note 19 of the Notes to the Consolidated Financial Statements.

Cash flow

Cash and cash equivalents increased $140 million from $1,027 million at March 31, 2014, to $1,167 million at March 31, 2015. In 2014-15, cash of $515.6 million and $97.2 million was provided by financing activities and investing activities, respectively. Also, $476.5 million was used in operating activities.

Capital management

FCC manages capital in compliance with its Board-approved capital management policy and framework. The capital management policy and framework outline FCC's approach to assessing capital requirements for risks identified through its enterprise risk management framework. The objective of the policy and framework is to maintain a safe and sound capital position and manage capital to withstand economic downturn and periods of extended loss. This will allow FCC to continue to serve the industry through all economic cycles.

FCC compares its total capital to minimum regulatory capital and target capital, as well as considers its debt to equity ratio when assessing current and future capital adequacy. FCC uses the Capital Adequacy Requirements (CAR) guideline as issued by the Office of the Superintendent of Financial Institutions (OSFI) to assess its total capital, minimum regulatory capital and risk-weighted assets (RWA). FCC uses its internal capital adequacy assessment process (ICAAP) to determine an appropriate target capital ratio. FCC's approaches are generally consistent with Basel III guidance issued by the Basel Committee for Banking Supervision (BCBS).

FCC will continue to build on its capital management practices in 2015-16 with the enhancement of its ICAAP and stress-testing capabilities. This will further improve FCC's integration of capital adequacy into strategic planning.

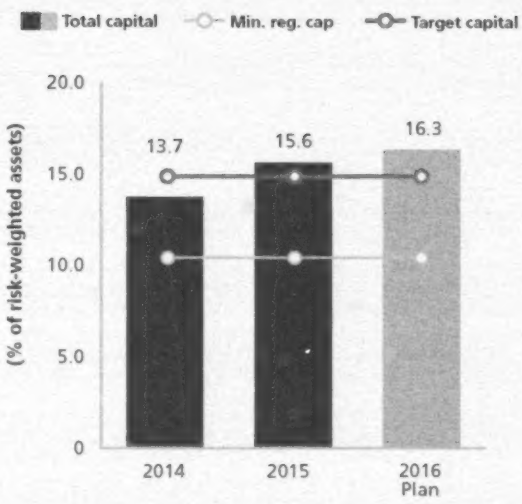
Capital adequacy

FCC is currently, and projected to remain, adequately capitalized. FCC has established a target capital ratio of 15% of RWA, based on its ICAAP. The target is set to account for OSFI's minimum regulatory capital, capital required for additional risks and for the impact of stress testing, future growth, and an operating range. FCC is currently 0.6% above the target capital ratio and expects to be 1.3% above the target by March 31, 2016, as the percentage growth in capital from retained earnings is expected to outpace the percentage growth in RWA.

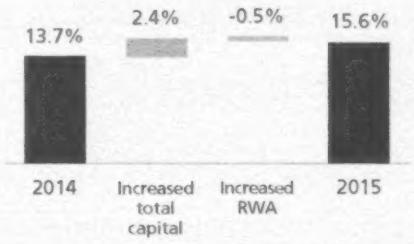
Total capital ratio continuity

The considerable increase in the total capital ratio from March 31, 2014 to March 31, 2015, is largely explained by increased total capital, which is primarily driven by increased retained earnings. The significant recovery in provision for credit losses resulting from the one-time adjustment to the allowance for credit losses contributed to an increase in retained earnings.

Capital adequacy



Total capital ratio continuity



Debt to equity

FCC uses debt to equity as an additional measure to assess capital adequacy, and the measure also represents the corporation's only legislated limit. At the end of 2014-15, FCC's debt to equity ratio remained below its legislated limit of 12:1.

From 2013-14 to 2014-15, FCC's debt to equity ratio improved from 5.7:1 to 5.0:1. In 2015-16, this ratio is projected to further improve to 4.6:1, due in part to the relationship between portfolio and equity growth. In 2014-15, growth in equity was 16.4%, which exceeded the portfolio growth of 4.2%.

See Note 23 of the Notes to the Consolidated Financial Statements for additional details on capital management.

Enterprise risk management

Managing risk to protect FCC and maintain great customer relationships

As a financial institution, risk is inherent in virtually all FCC activities. FCC takes potential risks into account when lending to customers, delivering services and defining priorities.

FCC is diligent about enterprise risk management (ERM) and integrates it with corporate initiatives and strategic planning across business lines. FCC continually improves its approach through implementation and execution of the ERM framework and measurement of activities against a formal risk appetite and tolerance statement that defines and measures acceptable risk.

FCC continues to implement recommendations resulting from a review of its risk management practices by the Office of the Superintendent of Financial Institutions (OSFI).

Risk governance

FCC Board of Directors

The FCC Board of Directors oversees the corporation's risk governance framework. The Board also oversees the ERM program, internal systems and practices to ensure risk management is integrated with strategic, financial and operating plans. Risk policies approved by the Board establish the risk limits for enterprise risk management, as well as the management of specific risk categories.

The Board has established four committees to help fulfil its oversight role:

The **Risk Committee** oversees enterprise-wide risk management and ensures that risk management activities are separate from operational management. The committee also oversees organizational compliance with FCC's risk management policies and the effectiveness of systems and programs related to capital requirements.

The **Audit Committee** oversees the integrity, accuracy and timeliness of FCC's financial reporting. The committee also oversees FCC's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between FCC and the Office of the Auditor General of Canada.

The **Corporate Governance Committee** reviews, reports and when appropriate, recommends governance matters to the Board. This includes FCC's strategic planning process, code of conduct and ethics, and corporate social responsibility strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.

The **Human Resources Committee** oversees FCC's human resources plan and policies and its pension plans. The committee also oversees President and Chief Executive Officer (CEO) selection, goal setting and performance review, as well as the corporate compensation structure and succession planning for senior managers.

FCC executive and business functions

FCC uses a three lines of defence model to govern risk related to key business processes. Policies outline risk-taking and risk-management functions and then cascade risk management authorities to various operational units congruent with the authorities of the President and CEO, Chief Risk Officer (CRO) and the Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence:

- The **first line of defence** develops and executes FCC's business strategy. This includes the ability to make loans, fund the portfolio, develop products, pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement. These responsibilities are outlined in the role of the President and CEO, and are cascaded throughout FCC.

The President and CEO is the primary interface with the Board and can delegate authority to senior management to carry out the responsibilities. The President and CEO is responsible for organizational structure and operational and business policies. The President and CEO also ensures FCC's risk management functions have the necessary resources and support to fulfil their duties, are independent of operational management and have the capacity to offer objective opinions and advice to senior leaders and the Board. The President and CEO is responsible for the implementation of several major risk-related policies and FCC's performance relative to the risk appetite statement.

The President and CEO is responsible for ensuring the effectiveness of FCC's operational risk controls and compliance with applicable laws, regulations and guidelines.

- The **second line of defence** effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy, monitoring compliance to policy, reporting risks to management and the Board and challenging the risk-taking decisions.

  The CRO leads a risk division that is independent of FCC operations. The CRO is independent of operational management and reports directly to the Board's Risk Committee. The CRO oversees risk management at all levels across FCC and reports to the Risk Committee about whether FCC is operating within its risk appetite statement and risk policy limits. The CRO works with business functions to design and implement action plans in the event of policy breaches and ensures that applicable business functions provide accurate and objective risk reports.

- The **third line of defence** assures the Board that FCC appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first- and second-line functions.

  The Internal Audit business function provides objective assurance to the Board and FCC executive about the effective operation of risk management practices and internal controls and employee compliance with risk policies. It audits operational and risk management activities across FCC and provides its findings and recommendations to the Board.

FCC committees

A number of committees guide corporate decision-making. These committees develop and monitor risk management processes and practices.

The **Enterprise Management Team** (EMT) sets FCC's strategy and determines which business opportunities to pursue. EMT ensures the ERM framework is implemented across FCC.

The **Asset Liability Committee** (ALCO) directs FCC's business and financial performance relative to the approved strategy and risk appetite statement. ALCO manages FCC's capital, interest rate risk, price, volume and margins, loan pricing, products and business lines.

The **Enterprise Risk Management Committee** (ERMC) advises the CRO on risk management governance. It also promotes a risk management culture at FCC and the oversight of risk management practices. As an advisory group, ERMC reviews and makes recommendations about FCC's risk structure, resources, mandate and budget. ERMC advises the CRO and Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address identified gaps in risk management and any policy breaches, the fit of new products and services within the risk appetite, stress and scenario testing and the assessment of strategic risk. ERMC also reviews and approves FCC's risk management models.

The **Operational Risk Management Committee** (ORMC) champions operational risk management at FCC. As an advisory group, ORMC reviews and aligns to the operational risk management framework, challenges identified risks and manages risk treatment plans, escalating risks to ERMC as required. It also oversees and challenges control testing results and effectiveness of control monitoring, recommends policy standards for the policy governance framework, approves and sets standards for operational risk management processes, and approves and monitors the annual process review plan. ORMC provides operational risk reporting to ERMC.

The **Credit Policy Committee** oversees the development of lending, leasing and custom product policies and ensures they reflect FCC's credit risk tolerance, risk management culture and industry best practices, complying with applicable laws and regulations.

The **Credit Committee** approves large credit facilities and related loan administration matters. It ensures activities are within FCC's risk tolerances and in accordance with credit policies.

The **Venture Capital Committee** approves capital commitments to fund managers that FCC may partner with to make venture capital investments.

FCC's risk appetite

The Board has established a risk appetite statement for FCC as the criteria to assess risk. The statement consists of three principles that outline the level of risk FCC is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The risk appetite statement is widely shared throughout the corporation.

The core principles are as follows:

- We use our understanding of agriculture financing to take prudent risks that are good for the customer, the corporation and the agriculture industry.
- We accept the risk of taking a long-term view in order to maintain a steady presence in the marketplace.
- We act with integrity and avoid risks that could jeopardize our mandate, our financial viability and our reputation.

FCC's principal risks

Risk is the potential that an event, action or inaction may threaten FCC's ability to achieve its business mandate and objectives. FCC has identified six risk categories – credit, market, liquidity, operational, strategic and reputation – and reports quarterly to the Board Risk Committee on the approved risk limits and trends for each category.

Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to FCC. Credit risk on loan and lease receivables is the most significant risk that the corporation faces, although credit risk also exists on investments and derivative financial instruments.

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risk.

On an annual basis, the Board and ERMC approve a portfolio diversification plan and key risk measures. Leveraging financial industry best practices, FCC has developed an economic capital model and has implemented a capital management policy and framework.

Credit risk assessment starts with individual transactions. FCC lending and credit risk employees assess and manage credit risk by ensuring individual loans are consistent with defined policies. Certified appraisers in the Valuations and Environmental Risk business unit help assure the accuracy of loan security value estimates.

FCC uses policies, processes, systems and strategies to manage the credit risk of the lending portfolio.

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify credit risk and allowance for credit losses. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

The Treasury division assesses credit risk due to counterparty exposure on derivative and investment activity. Policies, processes, systems and strategies are used to manage the credit risk of Treasury activities.

Details on how FCC manages credit risk are described in Note 24 of the Notes to the Consolidated Financial Statements.

Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors such as interest rates and foreign exchange rates. Market risk exists in all of the corporation's financial instruments. FCC market risk policies comply with the Minister of Finance Financial Risk Management Guidelines for Crown Corporations (August 2009). FCC's market risk management is described in Note 24 of the Notes to the Consolidated Financial Statements.

Liquidity risk

Liquidity risk is the risk that FCC has insufficient funds to meet payment obligations as they come due. Liquidity risk is minimized through the use of a liquid investment portfolio, funding through the Crown Borrowing Program and access to an operating line of credit. FCC's liquidity risk management is described in Note 24 of the Notes to the Consolidated Financial Statements.

Operational risk

Operational risk relates to the potential of direct or indirect loss due to inadequate or failed internal processes, resources, systems or external events, and the failure to comply with, or adapt to, legislative or regulatory requirements or litigation.

The main sources of operational risk in organizations are people, processes and systems. At FCC, managers are responsible for ensuring appropriate policies and processes are in place within their business units to manage risks, and internal controls are operating effectively. Risk and control assessments identify and assess key risks to ensure appropriate controls are in place or gaps are closed. Key controls are monitored on a regular basis to determine their effectiveness.

FCC has a formal program to measure and monitor operational compliance to policies for credit, market and liquidity risk. Compliance reporting provides recommendations to address non-compliance, including employee coaching, policy clarifications or additional controls.

In addition, FCC's operations audit program examines lending activities and provides learning opportunities for continual improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Having knowledgeable employees is foundational to managing operational risk. Learning initiatives at FCC include the Leadership Excellence Program, which provides targeted development for formal leaders, and the Lending Essentials Program, which focuses on building the skills required of the corporation's front-line employees.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk by adhering to a Board-approved fraud risk management policy, delivering fraud awareness training to employees and having a policy and process in place regarding customer identification.

To ensure the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed across Information Technology, Facilities and Administration, and Human Resources, which provide security controls that protect the availability, confidentiality and integrity of FCC assets. Overall enterprise security governance is provided by a cross-divisional security co-ordination team.

Strategic risk

Strategic risk refers to the external environment and FCC's ability to develop and implement effective business strategies.

EMT develops the corporate strategy annually and documents FCC's key strategic priorities in the five-year corporate plan. The Board provides oversight. The external environment, including the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks. FCC regularly communicates with its shareholder, the Government of Canada, to ensure that the corporation's activities align with government priorities.

Potential strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. EMT members are accountable for developing risk mitigation plans, monitoring key risk indicators, reporting progress to mitigation strategies and reporting to the Board on a quarterly basis through corporate risk reporting.

Reputation risk

Reputation risk is the risk that key stakeholders and others may develop negative perceptions about FCC that could adversely affect the corporation's reputation and ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. Exposure to reputation risk is a function of FCC's ability to manage and respond to other risks. To avoid real or perceived reputation damage, FCC has a robust governance structure, including policies and processes to guide employee conduct in interactions with co-workers, customers, industry partners, suppliers, media and the general public. Customer integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The credit facility application process requires customers to sign a declaration stating they know of no reason why FCC may have any concern about their business.

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Farm Credit Canada and all information in this annual report are the responsibility of the corporation's management and have been reviewed and approved by the FCC Board of Directors. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, consequently, include amounts that are based on the best estimates and judgment of management. Financial information presented elsewhere in the annual report is consistent with that contained in the consolidated financial statements.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that the corporation properly authorizes and records transactions, safeguards assets, recognizes liabilities, maintains proper records, and complies with applicable laws and conflict of interest rules. The system of internal control is augmented by internal audit, which conducts periodic reviews of different aspects of the corporation's operations.

The FCC Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control. It exercises this responsibility through the Audit Committee, which is composed of directors who are not employees of the corporation. The Audit Committee meets with management, internal auditors and external auditors on a regular basis. Internal and external auditors have full and free access to the Audit Committee.

The corporation's independent external auditor, the Auditor General of Canada, is responsible for auditing the corporation's transactions and consolidated financial statements and for issuing his report thereon.

Michael Hoffort, P.Ag.
President and Chief Executive Officer

Rick Hoffman, CPA, CMA, MBA
Executive Vice-President and
Chief Financial Officer

Regina, Canada
May 27, 2015

Auditor General of Canada
Vérificateur général du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister of Agriculture and Agri-Food

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Farm Credit Canada, which comprise the consolidated balance sheet as at 31 March 2015, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Farm Credit Canada as at 31 March 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of Farm Credit Canada that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Canada Act*, the by-laws of Farm Credit Canada and the directives issued pursuant to Section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General
for the Auditor General of Canada

27 May 2015
Ottawa, Canada

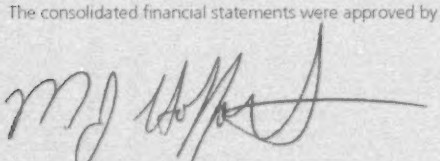
Consolidated Balance Sheet

(thousands of Canadian dollars)	March 31, 2015	March 31, 2014
Assets		
Cash and cash equivalents	$ 1,166,754	$ 1,026,820
Temporary investments (Note 3)	–	140,780
Accounts receivable (Note 4)	23,336	93,095
Derivative financial assets (Note 5)	58,828	53,201
	1,248,918	1,313,896
Loans receivable – net (Notes 6 and 8)	27,102,815	25,671,535
Finance leases receivable – net (Notes 7 and 8)	15,497	15,511
Venture capital investments (Note 9)	179,788	156,277
	27,298,100	25,843,323
Equipment and leasehold improvements (Note 10)	17,142	23,675
Computer software (Note 11)	25,359	31,987
Equipment under operating leases (Note 12)	70,221	54,803
Other assets (Note 13)	20,722	22,273
	133,444	132,738
Total assets	$ 28,680,462	$ 27,289,957
Liabilities		
Accounts payable and accrued liabilities	$ 77,966	$ 65,769
Derivative financial liabilities (Note 5)	–	2,527
	77,966	68,296
Borrowings (Note 14)		
Short-term debt	13,709,423	10,358,304
Long-term debt	9,722,524	12,431,589
	23,431,947	22,789,893
Transition loan liability	96,257	97,194
Post-employment benefit liabilities (Note 15)	143,563	98,460
Other liabilities (Note 16)	18,993	16,346
	258,813	212,000
Total liabilities	23,768,726	23,070,189
Equity		
Contributed surplus	547,725	547,725
Retained earnings	4,175,856	3,476,801
Accumulated other comprehensive income	130,944	141,389
Equity attributable to shareholder of parent entity	4,854,525	4,165,915
Non-controlling interest in structured entity	57,211	53,853
	4,911,736	4,219,768
Total liabilities and equity	$ 28,680,462	$ 27,289,957

Commitments, guarantees and contingent liabilities (Note 21)

The accompanying notes are an integral part of the consolidated financial statements.

The consolidated financial statements were approved by the FCC Board of Directors on May 27, 2015, and were signed on its behalf by:



Michael Hoffort, P.Ag.
President and Chief Executive Officer

Jane Halford, FCA, ICD.D
Chair, Audit Committee

Consolidated Statement of Operations

For the year ended March 31 (thousands of Canadian dollars)	2015	2014
Interest income	$ 1,207,135	$ 1,159,679
Interest expense	268,887	270,024
Net interest income (Note 17)	938,248	889,655
Provision for credit losses (Note 8)	281,397	47,551
Net interest income after provision for credit losses	1,219,645	937,206
Net insurance income	13,366	14,332
Other income	701	7,471
Net interest income and non-interest income	1,233,712	959,009
Administration expenses		
Salary expense	151,249	149,293
Benefits expense	52,167	74,955
Professional fees expense	47,229	42,308
Facilities, software and equipment expense	31,900	27,322
Amortization and depreciation expense	20,646	22,527
Travel and training expense	13,978	14,220
Marketing and promotion expense	9,832	11,779
Other expenses	12,062	13,575
Total administration expenses	339,063	355,979
Net income before fair value adjustment	894,649	603,030
Fair value adjustment (Note 18)	13,459	39,008
Net income	$ 908,108	$ 642,038
Net income attributable to:		
Shareholder of parent entity	$ 903,797	$ 630,710
Non-controlling interest in structured entity	4,311	11,328

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 (thousands of Canadian dollars)	2015	2014
Net income	**$ 908,108**	$ 642,038
Other comprehensive income		
Items that are or may be reclassified to net income		
Net gains (losses) on derivatives designated as cash flow hedges	**12,508**	(20,462)
Transfer of net realized gains on derivatives designated as cash flow hedges to net income	**(22,933)**	(22,684)
Net unrealized losses on available-for-sale financial assets	**(20)**	(217)
	(10,445)	(43,363)
Item that will never be reclassified to net income		
Remeasurements of post-employment benefit liabilities (Note 15)	**(78,599)**	126,085
Total other comprehensive (loss) income	**(89,044)**	82,722
Total comprehensive income	**$ 819,064**	$ 724,760
Total comprehensive income attributable to:		
Shareholder of parent entity	**$ 814,753**	$ 713,432
Non-controlling interest in structured entity	**4,311**	11,328

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

(thousands of Canadian dollars)	Balance March 31, 2014	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2015
Contributed surplus	**$ 547,725**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 547,725**
Retained earnings	**3,476,801**	**903,797**	**(78,599)**	**(126,143)**	**–**	**4,175,856**
Net gains (losses) on derivatives designated as cash flow hedges	**141,926**	**–**	**(10,425)**	**–**	**–**	**131,501**
Net unrealized losses on available-for-sale financial assets	**(537)**	**–**	**(20)**	**–**	**–**	**(557)**
Total accumulated other comprehensive income (loss)	**141,389**	**–**	**(10,445)**	**–**	**–**	**130,944**
Total equity attributable to parent	**4,165,915**	**903,797**	**(89,044)**	**(126,143)**	**–**	**4,854,525**
Non-controlling interest in structured entity	**53,853**	**4,311**	**–**	**–**	**(953)**	**57,211**
Total	**$ 4,219,768**	**$ 908,108**	**$ (89,044)**	**$ (126,143)**	**$ (953)**	**$ 4,911,736**

(thousands of Canadian dollars)	Balance March 31, 2013	Net income	Other comprehensive income	Dividend paid	Distributions to non-controlling interest	Balance March 31, 2014
Contributed surplus	$ 547,725	$ –	$ –	$ –	$ –	$ 547,725
Retained earnings	2,770,326	630,710	126,085	(50,320)	–	3,476,801
Net gains (losses) on derivatives designated as cash flow hedges	185,072	–	(43,146)	–	–	141,926
Net unrealized losses on available-for-sale financial assets	(320)	–	(217)	–	–	(537)
Total accumulated other comprehensive income (loss)	184,752	–	(43,363)	–	–	141,389
Total equity attributable to parent	3,502,803	630,710	82,722	(50,320)	–	4,165,915
Non-controlling interest in structured entity	28,387	11,328	–	–	14,138	53,853
Total	$ 3,531,190	$ 642,038	$ 82,722	$ (50,320)	$ 14,138	$ 4,219,768

The accompanying notes are an integral part of the consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended March 31 (thousands of Canadian dollars)	2015	2014
Operating activities		
Net income	**$ 908,108**	$ 642,038
Adjustments to determine net cash (used in) provided by operating activities:		
Net interest income	**(938,248)**	(889,655)
Unwind adjustment on impaired loans	**(454)**	(4,151)
Provision for credit losses	**(281,397)**	(47,551)
Fair value adjustment	**(13,459)**	(39,008)
Gain on sale of venture capital investment in associate	**(498)**	(5,575)
Amortization and depreciation	**20,646**	22,527
Other	**(997)**	(1,292)
Net cash outflow from loans receivable	**(1,139,810)**	(1,113,327)
Net cash inflow (outflow) from finance leases receivable	**636**	(2,486)
Net change in other operating assets and liabilities	**62,501**	(40,707)
Interest received	**1,162,054**	1,113,888
Interest paid	**(255,621)**	(268,277)
Cash used in operating activities	**(476,539)**	(633,576)
Investing activities		
Net cash inflow from temporary investments	**140,581**	23,954
Acquisition of venture capital investments	**(40,971)**	(51,321)
Proceeds on disposal and repayment of venture capital investments	**36,441**	6,273
Purchase of equipment and leasehold improvements	**(3,234)**	(11,170)
Purchase of computer software	**(6,598)**	(5,261)
Purchase of equipment under operating leases	**(38,242)**	(32,399)
Proceeds on disposal of equipment under operating leases	**9,240**	7,004
Disposal of real estate property held for sale	**–**	1,229
Cash provided by (used in) investing activities	**97,217**	(61,691)
Financing activities		
Long-term debt issued	**7,466,250**	6,559,000
Long-term debt repaid	**(6,530,000)**	(4,208,886)
Short-term debt issued	**44,549,626**	35,828,010
Short-term debt repaid	**(44,844,133)**	(37,324,214)
Dividend paid	**(126,143)**	(50,320)
Cash provided by financing activities	**515,600**	803,590
Change in cash and cash equivalents	**136,278**	108,323
Cash and cash equivalents, beginning of year	**1,026,820**	917,871
Effects of exchange rate changes on the balances of cash held and due in foreign currencies	**3,656**	626
Cash and cash equivalents, end of year	**$ 1,166,754**	$ 1,026,820
Cash and cash equivalents are comprised of:		
Cash	**$ 94,428**	$ 119,300
Short-term investments	**1,072,326**	907,520

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

1. The corporation

Authority and objectives

Farm Credit Canada (the corporation) was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The corporation is located in Canada and its registered office is at 1800 Hamilton Street, Regina, Saskatchewan, Canada. The corporation is wholly owned by the Government of Canada and is not subject to the requirements of the Income Tax Act.

On April 2, 1993, the Farm Credit Corporation Act was proclaimed into law and replaced the Farm Credit Act and the Farm Syndicates Credit Act, both of which were repealed. The revised Act allows the corporation to operate under an expanded mandate that includes broader lending and administrative powers.

On June 14, 2001, the Farm Credit Canada Act received royal assent, which updated the Farm Credit Corporation Act. This Act allows the corporation to offer producers and agribusiness operators a broader range of services.

In September 2008, the corporation, together with a number of other Crown corporations, was issued a directive (P.C. 2008-1598) pursuant to Section 89 of the Financial Administration Act, requiring due consideration by the corporation to the personal integrity of those it lends to or provides benefits to. During fiscal 2015, the corporation continued to implement the requirements of Section 89(6) of the Financial Administration Act.

In December 2014, the corporation was issued another directive (P.C. 2014-1377) pursuant to Section 89 of the Financial Administration Act, requiring the corporation to ensure its pension plans provide:

(1) a 50:50 current service cost-sharing ratio between employee and employer for pension contributions to be phased in by December 31, 2017, and;

(2) for employees hired after January 1, 2015, that the normal age of retirement is raised to 65 years and that the age at which retirement benefits are available, other than those received at the normal age of retirement, corresponds with the age at which they are available under the Public Service Pension Plan.

This directive also requires the corporation to outline its implementation strategy with respect to the aforementioned requirements in its next corporate plan and subsequent corporate plans until the commitments are fully implemented. The corporation is in the process of phasing in these changes by the required dates.

The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.

2. Significant accounting policies

Basis of presentation

Consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The significant accounting policies used in the preparation of the consolidated financial statements are summarized in the following pages. The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

2. Significant accounting policies (continued)

The consolidated financial statements are presented in Canadian dollars, which is the corporation's functional currency. Unless otherwise stated, all dollar amounts presented within the Notes to the Consolidated Financial Statements are in thousands of Canadian dollars.

Changes in accounting standards

The IASB has issued a number of new standards, interpretations, amendments and improvements. One standard is relevant to the corporation and was effective April 1, 2014. IAS 32 Financial Instruments: Presentation was amended to clarify the guidance on offsetting financial assets and liabilities. The adoption of IAS 32 Financial Instruments: Presentation had no impact on the corporation.

Basis of consolidation

The consolidated financial statements include the accounts of the corporation, Avrio Fund I, Avrio Fund II, Avrio Fund III and Avrio Subordinated Debt Fund (collectively the Avrio Funds). The Avrio Funds are venture capital limited partnerships for which the corporation is a limited partner holding majority partnership interests. The corporation consolidates the Avrio Funds because they are structured entities in which the corporation is exposed, or has rights, to variable returns from its involvement with these funds and has the ability to affect those returns through its power over the funds. An adjustment has been made for significant intervening transactions and changes in fair value of investments occurring between the December 31 year-end of the Avrio Funds and the corporation's year-end. All significant intercompany balances and transactions have been eliminated. The non-controlling interest, which represents the equity in the Avrio Funds that is not attributable to the corporation, has been presented in the Consolidated Balance Sheet, the Consolidated Statement of Operations, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Classification and designation of financial instruments

Financial assets are classified or designated as loans and receivables, financial assets at fair value through profit or loss or available-for-sale (AFS) financial assets. Financial liabilities are classified or designated as financial liabilities at fair value through profit or loss or other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial instruments at fair value through profit or loss are derivative financial assets and liabilities that are classified as held for trading (HFT) and non-derivative financial assets and liabilities that meet certain conditions to be designated at fair value through profit or loss at initial recognition. AFS financial assets are non-derivative financial assets that do not qualify for inclusion in any of the other financial asset categories.

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification.

Cash and cash equivalents

Cash and cash equivalents are composed of bank account balances and short-term, highly liquid investments that have a maturity date of 90 days or less from the date of acquisition, are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are designated as AFS financial assets. Interest earned on cash and cash equivalents is included in interest income.

Temporary investments

Temporary investments have maturity dates between 91 and 365 days from the date of acquisition, are acquired primarily for liquidity purposes and are designated as AFS financial assets. Temporary investments are accounted for at fair value using trade date accounting and a valuation technique as described under the Estimation Uncertainty heading. Unrealized fair value gains and losses are included in other comprehensive income (OCI). Interest earned on temporary investments is included in interest income.

2. Significant accounting policies (continued)

Accounts receivable

Accounts receivable are classified as loans and receivables and are carried at amortized cost using the effective interest method. Amounts receivable from pending borrowing consist of borrowings that remained unsettled at the end of the reporting year. The fair value of amounts receivable from pending borrowing is the value at which the borrowing was undertaken.

Derivatives

Derivative financial instruments create rights and obligations that are intended to mitigate one or more of the financial risks inherent in an underlying primary financial instrument. The corporation uses derivative financial instruments to manage exposures to interest rate and foreign exchange fluctuations, within limits approved by the FCC Board of Directors (the Board). These limits are based on guidelines established by the Department of Finance. The corporation does not use derivative financial instruments for speculative purposes.

Derivatives not designated as hedging instruments in effective hedging relationships are classified as HFT. Derivatives classified as HFT are recorded at fair value using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Derivatives classified as HFT are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest earned and incurred on derivatives classified as HFT is included in interest expense.

Cash flow hedges

The corporation documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking hedge transactions. The corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the cash flows of hedged items. Derivatives that are designated as hedging items in cash flow hedges are accounted for at fair value. The effective portion of a change in a derivative's fair value is recognized in OCI, while the ineffective portion of a change in a derivative's fair value is reported in the fair value adjustment. Derivatives designated as hedging items are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Interest income or expense related to derivatives designated as hedging items in cash flow hedges is recognized on the same basis as the hedged item, as an adjustment to interest income or expense, respectively.

Cash flow hedge accounting is discontinued prospectively when the corporation revokes the designation or when the derivative contract is terminated, matures or no longer qualifies as an effective cash flow hedge. When a cash flow hedge is discontinued, any cumulative gains or losses previously recognized in OCI are transferred to net interest income over the remaining term of the original hedge and in the same manner that net interest income is affected by the variability in the cash flows as the hedged item. For derivatives still outstanding following the date of the discontinued hedging relationship, all subsequent fair value gains and losses are recognized immediately in the fair value adjustment.

Loans receivable

Loans are classified as loans and receivables. Loans receivable are stated net of an allowance for credit losses and deferred loan fees and are measured at amortized cost using the effective interest method.

Loan interest income is recorded on an accrual basis and recognized in net income using the effective interest method unless the loan is classified as impaired. Once a loan is impaired, the unwinding of the discount on the security value is recognized as interest income based on the original effective interest rate of the loan.

Loan origination fees, including commitment fees and renegotiation fees, are considered an integral part of the return earned on a loan and are recognized in interest income over the expected term of the loan using the effective interest method. In addition, certain incremental direct costs for originating the loans are deferred and netted against the related fees.

2. Significant accounting policies (continued)

An impaired loan is any loan where, in management's opinion, the credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured. When a loan is classified as impaired, the carrying value is reduced to its estimated realizable value through an adjustment to the individual allowance for credit losses. Changes in the estimated realizable amount that arise subsequent to the initial impairment are also adjusted through the individual allowance for credit losses.

Loan interest income is not accrued when a loan is classified as impaired. All payments received on an impaired loan are credited against the recorded investment in the loan. The loan reverts to performing status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured. When the impaired loan is restored to performing status, the remaining individual allowance for credit losses is reversed.

Loans and their related allowance for credit losses are written off when all collection efforts have been exhausted and there is no realistic prospect of future recovery.

Finance leases receivable

When the corporation is the lessor in a lease arrangement that transfers substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as a finance lease. Finance leases receivable are classified as loans and receivables. Finance leases receivable are stated net of an allowance for credit losses and are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Finance lease income is recognized in a manner that produces a constant rate of return on the lease.

Allowance for credit losses

The corporation recognizes an allowance for credit losses that represents management's best estimate of the incurred losses in the loan and lease portfolio at the balance sheet date. The allowance is increased or decreased by the provision for credit losses, the government subsidy for the Hog Industry Loan Loss Reserve Program (HILLRP), as described under the Government Assistance heading, the unwind adjustment, as described under the Individual Allowance heading, writeoffs and recoveries.

At each balance sheet date, the corporation assesses whether there is objective evidence that a loan or lease is impaired. If there is objective evidence that an impairment loss on a loan or lease has been incurred, the carrying value of the loan or lease is reduced through the allowance for credit losses and the amount of the loss is recognized in the provision for credit losses. If, in a subsequent period, the amount of impairment loss increases or decreases and the increase or decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through the allowance for credit losses and provision for credit losses.

In determining the allowance for credit losses, management segregates credit losses into two components: individual and collective.

Individual allowance – The corporation first assesses whether objective evidence of impairment exists based on an individual review of each loan or lease in the portfolio. The review is undertaken to determine if a loss event indicating impairment exists for an individual loan or lease. The review assesses whether credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of timely collection of the full amount of principal and interest. In addition, the corporation has defined arrears of greater than $500 for 90 or more consecutive days as being a loss event. If a loss event has occurred, an impairment loss is recorded

2. Significant accounting policies (continued)

unless the loan or lease is sufficiently secured. The impairment loss is calculated as the difference between the loan or lease's carrying value and the present value of estimated future cash flows discounted at either the loan or lease's original effective interest rate for fixed-rate loans or leases or the effective interest rate at the time of the impairment for variable-rate loans or leases. The estimation of future cash flows considers the fair value of any underlying security as well as the estimated time and costs to realize the security. In subsequent periods, any change in present value of estimated future cash flows attributable to the passage of time adjusts the allowance for credit losses through the unwind adjustment. The unwind adjustment is recorded in interest income.

Collective allowance – If the corporation determines that no objective evidence of impairment exists for an individually assessed loan or lease, it is assessed on a collective basis. In making the collective assessment of impairment, management groups the loans and leases into portfolios with similar credit risk characteristics. Future cash flows for these portfolios are estimated on the basis of underlying security values and historical loss experience, considering customer, loan and security characteristics. The collective assessment of impairment for loans is broken down into three components: triggered loan pool, general loan pool and overlay.

- Triggered loan pool – Loans are included in this pool if any one of the following loss events has occurred:
  1. All loans for customers with any one loan that has a minimum of $500 of arrears.
  2. All loans for customers with any one loan that has had an amortization extension to the payment schedule in the last 12 months.
  3. Any individual loan that has had a 15-point risk scoring and pricing system (RSPS) score drop when compared to its RSPS score 12 months ago.

- General loan pool – This assessment considers credit losses that have been incurred on loans that do not meet the criteria to be in either the individual or triggered loan pools. It is based on the historical movement of loans from performing status to either the triggered or individually impaired loan pools.

- Overlay – The corporation uses the overlay to adjust its historical loss experience reflected in the triggered loan pool and general loan pool components of the collective assessment for current market conditions.

For select portions of the corporation's portfolio, the above process is tailored to capture the unique characteristics of these loans to identify and measure impairment more accurately. For these loans, the individual loss event is considered to be 180 days past due. For the collective allowance, the corporation considers the historical movement of performing loans to impaired status, along with the calculation of expected future cash flows estimated using historical probabilities of default and loss given default.

Venture capital investments

Venture capital investments include investments held by the Avrio Funds. The corporation has designated its venture capital investments at fair value through profit or loss, as they are managed and their performance is evaluated on a fair value basis in accordance with a documented investment strategy.

Venture capital investments are accounted for at fair value, using a valuation technique as described under the Estimation Uncertainty heading, with gains and losses reported in the fair value adjustment. Interest on debt is recognized when receivable and included in interest income. Dividends on preferred and common shares are recognized when receivable and declared, respectively, and included in interest income. Royalty and fee income are also recognized when receivable and included in interest income.

2. Significant accounting policies (continued)

Equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the equipment or leasehold improvement. Subsequent expenditures, including replaced parts, are included in the equipment or leasehold improvement's carrying value or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the corporation and the cost of the item can be measured reliably. The carrying value of the replaced part is derecognized. All repair and maintenance costs are expensed during the financial period in which they are incurred.

Depreciation begins when the equipment or leasehold improvement is available for use by the corporation. Depreciation is calculated using the straight-line method to allocate the cost less estimated residual value of the asset over the following terms:

	Terms
Office equipment and furniture	5 years
Computer equipment	3 or 5 years
Leasehold improvements	Shorter of lease term or asset's useful economic life

The residual values and useful lives are reviewed annually and adjusted, if appropriate. Equipment and leasehold improvements are reviewed annually for indicators of impairment and if indicators exist the corporation estimates the recoverable amount of the asset. The estimated recoverable amount is the higher of the fair value less the costs to sell and the value in use. If the carrying value is greater than the estimated recoverable amount, an impairment loss would be recognized to reduce the carrying value to the estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying value and are included in facilities, software and equipment expense.

Computer software

Computer software is recorded at cost less accumulated amortization. Expenditures on internally developed software are recognized as assets when the corporation is able to demonstrate its intention and ability to complete the development, to use the software in a manner that will generate future economic benefits and to reliably measure the costs to complete the development. The capitalized costs of internally developed software include all costs directly attributable to developing the software.

Amortization begins when the software is available for use by the corporation. Amortization is recorded over the estimated useful life of three or five years using the straight-line method.

Software is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Equipment under operating leases

When the corporation is the lessor in a lease arrangement that does not transfer substantially all of the risks and rewards incidental to ownership to the lessee, then the arrangement is classified as an operating lease. Equipment under operating leases is recorded at cost less accumulated depreciation. Equipment is depreciated on a straight-line basis over its useful life to the corporation, which is equivalent to the term of the lease. Depreciation is included in interest expense. Lease income from operating leases is recognized on a straight-line basis over the term of the lease and included in interest income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and recognized on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

Equipment under operating leases is reviewed annually for indications of impairment or changes in estimated future economic benefits. If such indications exist, the carrying value is analyzed to assess whether it is fully recoverable. An impairment loss would be recorded to reduce the carrying value to the recoverable amount if the carrying value is greater than the estimated recoverable amount.

Post-employment benefits

The corporation has a registered defined benefit pension plan, three supplemental defined benefit pension plans, a registered defined contribution pension plan, a supplemental defined contribution plan and other defined benefit plans that provide retirement and post-employment benefits to most of its employees. The defined benefit pension plan and the defined contribution pension plan are registered under the Pension Benefits Standards Act, 1985 registration No. 57164. They are registered pension trusts as defined in the Income Tax Act and are not subject to income taxes. The defined benefit pension plan is based on employees' number of years of service and the average salary of their five highest-paid consecutive years of service. It is protected against inflation. The supplemental defined benefit and supplemental defined contribution pension plans are available for employees with employment income greater than their pensionable earnings.

Retirement benefit plans are contributory health-care plans with employee contributions adjusted annually and a non-contributory life insurance plan. Post-employment plans provide short-term disability income benefits, severance entitlements after employment and health-care benefits to employees on long-term disability.

The defined benefit obligations for pension and other defined benefit plans are actuarially determined using the projected unit credit actuarial valuation method, which incorporates management's best estimate of future salary levels, other cost escalation, retirement ages of employees and other actuarial factors. Plan assets are measured at fair value.

The corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The net liability for defined benefit obligations represents the present value of the defined benefit obligation reduced by the fair value of plan assets. The defined benefit asset is limited to the value determined by the asset ceiling. The value of the asset is restricted to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan.

Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets
- net interest expense or income on the net defined benefit liability
- remeasurements of the net defined benefit liability

Contributions to the defined contribution plan are recognized as an expense when employees have rendered service entitling them to the contributions. Unpaid contributions are recognized as a liability.

Past service costs arising from plan amendments are recognized immediately in benefits expense in the period of plan amendment.

Net interest, current service costs, gains and losses on curtailments and settlements, plan administration costs and the tax effect on refundable tax assets are recognized immediately in benefits expense in net income. Net interest is calculated by applying the discount rate used to discount the post-employment benefit obligations to the net liability for defined benefit obligations.

2. Significant accounting policies (continued)

Remeasurements include actuarial gains and losses, experience adjustments on plan liabilities, the change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability, if applicable) and the return on plan assets (excluding interest on the net defined benefit liability). Actuarial gains or losses arise from changes in actuarial assumptions used to determine the defined benefit obligations. Remeasurements are recognized immediately in OCI in the period in which they occur and flow into retained earnings in the Consolidated Balance Sheet.

Insurance

The corporation sells group creditor life and accident insurance to its customers through a program administered by a major insurance provider. The insurance premiums are actuarially determined and are accrued when receivable and recorded in net insurance income.

Insurance claims expense, included in net insurance income, consists of paid claims that are recorded as incurred throughout the year, an accrual for insurance claims payable at year-end for claims that have been incurred as at the balance sheet date, and adjustments to the reserve for insurance claims. The reserve for insurance claims represents the liability that, together with estimated future premiums and net investment income on insurance reserve assets, will provide for outstanding claims, estimated future benefits, taxes and expenses. The reserve for insurance claims is recorded at fair value and included in other liabilities. The reserve is actuarially determined using the Canadian Asset Liability Method and prepared on a going concern basis, taking into account the appropriate degree of risk inherent in the obligation, as described in Note 24. Changes in estimates are recorded when made and are included in net insurance income.

The corporation maintains a restricted insurance reserve asset, which is included in other assets, with the insurance provider to fund future claim payments. Interest is paid on the insurance reserve asset by the insurance provider annually and is recorded in other income.

Expenses related to administering the insurance program are recorded in other expenses. The accrual for insurance claims payable is classified as other financial liabilities, measured at amortized cost using the effective interest method and included in accounts payable and accrued liabilities.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost using the effective interest method.

Borrowings

Borrowings are undertaken with the approval of the Minister of Finance. Borrowings are direct obligations of the corporation and therefore constitute borrowings undertaken on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada.

Borrowings are classified as other financial liabilities and measured at amortized cost using the effective interest method.

Interest incurred on all borrowings is recorded on an accrual basis and recognized in interest expense using the effective interest method.

2. Significant accounting policies (continued)

Transition loan liabilities

The corporation records a transition loan liability that represents amounts owing to third parties upon the signing of a contract that requires the corporation to pay amounts in accordance with a disbursement schedule relating to undisbursed transition loans, which are included in loans receivable. As payments are made in accordance with the transition loan disbursement schedule, the applicable amount of the transition loan liability is reduced. Transition loan liabilities are recorded at amortized cost using the effective interest method.

Government assistance

The corporation is one of the financial institutions participating in the HILLRP. Under the HILLRP, the Government of Canada has established a loan loss reserve fund to share the net credit losses on eligible loans provided to hog operations with certain financial institutions. The corporation is responsible for all credit losses beyond those covered by the loan loss reserve fund and must meet certain eligibility requirements to access the reserve fund. The amount of funds available from the loan loss reserve fund to the corporation for any non-performing eligible loans are 90%, 80% and 70% of net credit losses in years one to three, four to six and seven to 15, respectively. Amounts held by the corporation to which it is not entitled are paid back to the Government of Canada at the end of the program. The corporation's deadline for disbursing the loans eligible under this program has passed and no further loan loss reserve fund instalments are due from the Government of Canada.

Management estimates the amount of the loan loss reserve fund to which the corporation is entitled under the HILLRP. This estimate is accounted for as a reduction to the corporation's provision for credit losses. The remaining amount of the loan loss reserve fund, to which the corporation is not entitled, is recorded as borrowings. Interest on this borrowing is recorded in interest expense.

Transaction costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issuance or disposal of a financial asset or liability. Transaction costs relating to loans and receivables and borrowings classified as other liabilities are deferred and amortized over the instrument's expected useful life using the effective interest method. Transaction costs related to all other financial instruments are expensed as incurred.

Operating lease payments

Payments on operating lease agreements are expensed on a straight-line basis over the lease term. Associated costs are expensed as incurred.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at rates prevailing on the balance sheet date. Income and expenses are translated at the monthly average exchange rates prevailing throughout the year. Exchange gains and losses on loans and receivables are included in interest income, and exchange gains and losses on borrowings are included in interest expense.

Segmented information

The corporation is organized and managed as a single business segment, which is agriculture lending. All of the corporation's revenues are within Canada.

2. Significant accounting policies (continued)

Significant management judgments in applying accounting policies

The following are critical management judgments used in applying the corporation's accounting policies.

Basis of consolidation

Management has determined that the Avrio Funds are structured entities. The substance of the relationship between the corporation and the Avrio Funds indicates the corporation controls the Avrio Funds. They have been consolidated in accordance with IFRS 10 – Consolidated Financial Statements.

Consolidated structured entities

IFRS 10 – Consolidated Financial Statements provides guidance on whether an entity is an agent or a principal decision-maker with respect to investments in other entities. After reviewing these criteria, management has concluded that the corporation is the principal, and the Avrio Funds are the agents. This is based on the fact that the funds operate within the mandate set out in the partnership agreements established by the corporation, and that the fund managers have limited exposure (1%) to the variability of returns. The Avrio Funds account for all investments at fair value. If a fund obtains a controlling interest in an entity, the Avrio Funds will continue to account for the investment at fair value. However, the corporation would consolidate the controlled investment into the Avrio Fund's financial statements prior to consolidating them into the corporation's financial statements.

Finance leases receivable

In applying the classification of leases in IAS 17 – Leases, management considers leases of agricultural equipment to be either finance or operating lease arrangements. In some cases, the lease transaction is not always conclusive and management uses judgment in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership.

Computer software

A significant portion of the corporation's computer software expenditures relates to software that is developed as part of internal infrastructures and, to a lesser extent, purchased directly from suppliers. Management has a process to monitor the progress of internal research and development projects. Significant judgment is required in distinguishing between the research and development phases. Research costs are expensed as incurred, whereas development costs are recognized as an asset when all criteria are met. Management monitors whether the recognition requirements for development costs continue to be met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems after the time of recognition.

Estimation uncertainty

The preparation of the consolidated financial statements in accordance with IFRS requires that management makes judgments, estimates and assumptions concerning the future that affect the reported amounts in the consolidated financial statements and accompanying notes. Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments, estimates and assumptions. Information about the significant judgments, estimates and assumptions that are critical to the recognition and measurement of assets, liabilities, income and expense is discussed below.

Allowance for credit losses

The loan and lease portfolio is reviewed by management to assess impairment. Judgments are made when determining whether a loss event has occurred, and estimates and assumptions are made in measuring the resulting impairment loss. Management uses best estimates based on historical loss experience for loans and leases with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. Significant accounting policies (continued)

Post-employment benefit liabilities

The estimate of the post-employment benefits liabilities or pension and non-pension post-retirement benefits is actuarially determined and incorporates management's best estimate of future salary levels, other cost escalation, employees' retirement ages and other actuarial assumptions. The discount rate is one of the more significant assumptions used. It is the interest rate that determines the present value of estimated future cash outflows expected to be required to settle the pension obligations. Management determines the appropriate discount rate at the end of each year. In doing this, management considers the interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any changes in these assumptions will affect the carrying values of post-employment benefit liabilities.

Reserve for insurance claims

The reserve for insurance claims is based on certain estimates and assumptions, including expected future mortality experience and interest rates. Higher mortality experience and increased interest rates would be financially adverse to the corporation. The corporation's mortality experience is combined with industry experience, since the corporation's own experience is insufficient to be statistically credible.

Useful lives of depreciable assets

During the software development process and when new equipment, leasehold improvements and computer software are being purchased, management's judgment and estimates are required to determine the expected period of benefit over which capitalized costs should be amortized. Management reviews the useful lives of depreciable assets at each reporting date. Actual results may vary because of technical obsolescence, particularly for software and information technology equipment due to rapidly changing technology and the uncertainty of the software development process.

Fair value of financial instruments

The fair value of financial instruments is determined based on published quoted market prices or valuation techniques when quoted market prices are not available. Fair values are point-in-time estimates that may change significantly in subsequent reporting periods due to changes in market conditions. Fair value techniques use models and assumptions about future events, based on either observable or non-observable market inputs. As such, fair values are estimates involving uncertainties and may be significantly different when compared to another financial institution's value for a similar contract. The methods used to value the corporation's financial instruments measured at fair value are as follows:

- The estimated fair value of temporary investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date for equivalent securities.
- The estimated fair value of derivative financial assets and liabilities is determined using market standard valuation techniques. Where call or extension options exist, the value of these options is determined using current market measures for interest rates and currency exchange rates and by taking volatility levels and estimations for other market-based pricing factors into consideration. Market-observed credit spreads, where available, are a key factor in establishing valuation adjustments against the corporation's counterparty credit exposures. Where the counterparty does not have an observable credit spread, a proxy that reflects the counterparty's credit profile is used.
- Venture capital investments in shares that are traded on an exchange are valued based on the bid prices as at the reporting date. Venture capital investments in shares of privately held companies are valued based on guidelines issued by the venture capital industry, using market-based valuation methodologies. The estimated fair value of venture capital debt investments is calculated by discounting contractual cash flows at interest rates prevailing at the reporting date with equivalent risk and terms to maturity.

2. Significant accounting policies (continued)

Accounting standards issued but not yet effective

The corporation has reviewed the new standards and amendments that have been issued but are not yet effective and determined that the following may have an impact on the corporation. Management is in the process of assessing the impact of these standards and amendments on the corporation's financial statements and accounting policies. A number of other amendments and improvements have been issued by the IASB and are not listed below and are not yet effective.

Standard	Details	Date of initial application
IFRS 15 – Revenue from contracts with customers	The IASB issued IFRS 15, which establishes principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	April 1, 2017
IFRS 9 – Financial instruments	In July 2014, the IASB issued the complete version of IFRS 9, first issued in November 2009, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39. IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. It is anticipated that this standard will change the classification of the corporation's temporary investments and cash equivalents from available for sale to amortized cost. IFRS 9 also introduces an expected loss impairment model for all financial assets not at fair value through profit and loss. The model has three stages: (1) on initial recognition, 12-month expected credit losses are recognized in profit or loss and a loss allowance is established (2) if credit risk increases significantly and the resulting credit risk is not considered to be low, full lifetime expected credit losses are recognized (3) when a financial asset is considered credit-impaired, interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount Finally, IFRS 9 introduces a new hedge accounting model that aligns the accounting for hedge relationships more closely with an entity's risk management activities.	April 1, 2018

3. Temporary investments

The corporation does not hold any investments with an initial term to maturity of greater than 90 days as of March 31, 2015.

As at March 31, 2014, short term instruments were $140.8 million with a yield of 1.08%. They consisted of deposit notes, bankers' acceptance and treasury bills issued by institutions with credit ratings of R-1M or higher as rated by the Dominion Bond Rating Service. As at March 31, 2014, the largest total investment in any one institution was $50.0 million.

4. Accounts receivable

($ thousands)	March 31, 2015	March 31, 2014
Other	$ 23,336	$ 20,145
Amounts receivable from pending borrowing	–	72,950
	$ 23,336	$ 93,095

5. Derivative financial instruments

($ thousands)	March 31, 2015	March 31, 2014
Derivative financial assets		
Derivatives classified as HFT	$ 58,828	$ –
Derivatives designated as cash flow hedges	–	53,201
	$ 58,828	$ 53,201
Derivative financial liabilities		
Derivatives classified as cash flow hedges	$ –	$ 2,527

The derivative contracts entered into by the corporation are over-the-counter interest rate swaps. They are transactions in which two parties exchange interest flows on a specified notional amount on predetermined dates for a specified period of time using agreed-upon fixed or floating rates of interest. Notional amounts upon which interest payments and receipts are based are not exchanged.

The corporation is exposed to variability in future interest cash flows on non-trading assets that bear interest at variable rates and designates its derivatives as cash flow hedges. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for the financial assets on the basis of their contractual terms and other relevant factors. The principal balances and interest cash flows over time form the basis for identifying the effective portion of gains and losses on the derivatives designated as cash flow hedges of forecasted transactions.

As at March 31, 2015, the estimated amount of existing net gains reported in accumulated other comprehensive income (AOCI) that is expected to be transferred to net income within the next 12 months is $23.2 million.

5. Derivative financial instruments (continued)

Cash flow hedge accounting was discontinued prospectively on January 1, 2015, for all the interest rate swaps previously designated as hedging items. The cumulative gains previously recognized in OCI are being transferred to net interest income over the remaining term of the original hedge. All fair value gains and losses on the interest rate swaps subsequent to discontinuation are recognized immediately in the fair value adjustment.

Notional principal amounts and term to maturity

($ thousands)	**March 31, 2015**	March 31, 2014
Within 1 year	**$ 94,489**	$ –
1-5 years	**–**	94,489
Over 5 years	**237,994**	237,994
	$ 332,483	$ 332,483

Counterparty credit risk

Derivatives that have a positive fair value are subject to counterparty risk because the positive fair value indicates that over time, the corporation can expect to receive cash flows from the counterparties based on the terms of the contract and current market conditions. The master netting agreements in place have no impact on the fair values at March 31, 2014, and March 31, 2015.

The fair values of the derivative financial instruments are as follows:

($ thousands)	**March 31, 2015**	March 31, 2014
Interest rate swaps	**$ 58,828**	$ 50,674
Cash collateral due to derivative counterparties	**(7,855)**	(1,552)
Fair value	**$ 50,973**	$ 49,122

The corporation does not anticipate any significant non-performance by counterparties because all counterparties are rated Aa3, A+ and AA or higher, as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Dominion Bond Rating Service (DBRS), respectively. The largest cumulative notional amount contracted with any institution as at March 31, 2015, was $139.3 million (2014 – $139.3 million), and the largest net fair value of contracts with any institution as at March 31, 2015, was $24.4 million (2014 – $19.3 million). The corporation mitigates the credit exposure on multiple derivative transactions by entering into master netting agreements with counterparties as outlined in Note 24. These agreements create the legal right to offset exposure in the event of default.

6. Loans receivable – net

The following tables summarize the contractual maturity of the gross loans receivable.

	March 31, 2015			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 2,776,857	$ 13,388,257	$ 614,175	$ 16,779,289
Fixed	1,775,735	6,854,161	1,920,285	10,550,181
Gross loans receivable	$ 4,552,592	$ 20,242,418	$ 2,534,460	$ 27,329,470
Deferred loan fees				(20,399)
Loans receivable – total				27,309,071
Allowance for credit losses (Note 8)				(206,256)
Loans receivable – net				$ 27,102,815

	March 31, 2014			
($ thousands)	Within 1 year	1 – 5 years	Over 5 years	Total
Floating	$ 3,031,722	$ 13,027,407	$ 693,844	$ 16,752,973
Fixed	1,472,745	5,835,290	2,162,011	9,470,046
Gross loans receivable	$ 4,504,467	$ 18,862,697	$ 2,855,855	$ 26,223,019
Deferred loan fees				(18,058)
Loans receivable – total				26,204,961
Allowance for credit losses (Note 8)				(533,426)
Loans receivable – net				$ 25,671,535

Management estimates that annually, over the next three years, approximately 7.0% (2014 – approximately 7.2%) of the current principal balance will be prepaid before the contractual due date.

As at March 31, 2015, $306.9 million (2014 – $197.3 million) of loans receivable were denominated in U.S. dollars (USD).

6. Loans receivable – net (continued)

Concentrations of credit risk

The concentrations of gross loans and impaired loans by enterprise and geographic area are as follows:

Enterprise distribution

	Gross		Impaired	
($ thousands)	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Oilseed and grain	**$ 8,148,896**	$ 7,531,755	**$ 24,880**	$ 19,324
Dairy	**5,061,541**	5,067,758	**32,307**	18,991
Agribusiness	**2,402,502**	2,334,257	**21,511**	43,346
Poultry	**1,947,479**	1,784,212	**2,490**	482
Part-time farming	**1,876,855**	1,880,102	**29,512**	16,602
Beef	**1,585,624**	1,588,531	**11,208**	34,552
Other	**1,303,487**	1,258,284	**26,723**	24,230
Agri-food	**1,110,096**	1,115,706	**54,259**	64,504
Alliances	**1,074,446**	914,562	**7,740**	7,647
Fruit	**1,019,002**	926,924	**55,760**	21,109
Greenhouse	**975,843**	987,639	**16,429**	18,070
Hogs	**823,699**	834,289	**9,979**	34,452
Total	**$ 27,329,470**	$ 26,223,019	**$ 292,798**	$ 303,309

Geographic distribution

	Gross		Impaired	
($ thousands)	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Alberta and British Columbia	**$ 8,083,156**	$ 7,941,193	**$ 140,485**	$ 103,857
Saskatchewan	**4,548,013**	4,316,219	**29,723**	56,124
Manitoba	**2,037,519**	1,927,693	**4,289**	11,692
Ontario	**8,219,811**	7,906,769	**31,099**	31,268
Quebec	**3,379,665**	3,098,181	**49,553**	65,565
Atlantic	**1,061,306**	1,032,964	**37,649**	34,803
Total	**$27,329,470**	$ 26,223,019	**$ 292,798**	$ 303,309

7. Finance leases receivable – net

($ thousands)	**March 31, 2015**	March 31, 2014
Total minimum finance lease payments receivable		
Less than one year	**$ 6,518**	$ 5,913
Between one and five years	**10,098**	11,044
Finance leases receivable – gross	**16,616**	16,957
Unearned finance income	**(1,088)**	(1,259)
Allowance for credit losses (Note 8)	**(31)**	(187)
Finance leases receivable – net	**$ 15,497**	$ 15,511

The corporation retains as collateral a security interest in the equipment associated with finance leases. The maximum term for finance leases receivable is five years.

8. Allowance for credit losses

	March 31, 2015			March 31, 2014		
($ thousands)	Loans receivable	Finance leases receivable	Total	Loans receivable	Finance leases receivable	Total
Individual allowance, beginning of year	$ 143,557	$ –	$ 143,557	$ 151,012	$ –	$ 151,012
Provision for credit losses	(14,947)	–	(14,947)	48,356	–	48,356
Losses covered under HILLRP	201	–	201	(10,901)	–	(10,901)
Unwind adjustment on impaired loans	(454)	–	(454)	(4,151)	–	(4,151)
Writeoffs	(35,991)	–	(35,991)	(45,053)	–	(45,053)
Recoveries	1,067	–	1,067	4,294	–	4,294
Individual allowance, end of year	93,433	–	93,433	143,557	–	143,557
Collective allowance, beginning of year	389,869	187	390,056	488,991	169	489,160
Provision for credit losses	(266,294)	(156)	(266,450)	(95,925)	18	(95,907)
Losses covered under HILLRP	(5,204)	–	(5,204)	(1,711)	–	(1,711)
Writeoffs	(6,132)	–	(6,132)	(2,021)	–	(2,021)
Recoveries	584	–	584	535	–	535
Collective allowance, end of year	112,823	31	112,854	389,869	187	390,056
Total allowance	$ 206,256	$ 31	$ 206,287	$ 533,426	$ 187	$ 533,613

During the fiscal year, continued advancement of risk and capital management practices at the corporation resulted in an update and standardization of credit risk rating methodology and processes. This resulted in changes to the allowance assumptions for both probability of default and loss given default. The changes to both models decreased the allowance by a total of $275.1 million and resulted in an allowance estimate that better reflects the corporation's historical loss experience. The updated models, detailed below, represent a change in accounting estimate.

The new loss given default model was built using predictive analytics to produce a model that better predicts loss of individual loans versus predicting the loss of the aggregated loan portfolio as the previous model did. The new model also incorporates variables that consider customer, loan and security characteristics beyond solely the security value. The difference between using the updated assumption and the prior assumption as at March 31, 2015, is an $11.8 million release in provision.

The new probability of default model provides a better prediction of default based on business line compared to the old model. The difference between using the updated assumption and the prior assumption as at March 31, 2015, is a $183.5 million release in provision.

A cycle adjustment is used to ensure the above models reflect FCC's long-run writeoff experience. Updates to this approach were made as part of implementing the new loss given default and probability of default models. The difference between using the updated assumption and prior assumption as at March 31, 2015, is a $60.3 million release in provision.

The remaining decrease in the allowance can be attributed to other calculations also impacted indirectly by the above model updates. The difference between using the updated assumption and the prior assumption as at March 31, 2015, is a $19.5 million release in provision.

9. Venture capital investments

Carrying value by type of investment

($ thousands)	March 31, 2015	March 31, 2014
Preferred shares	$ 78,829	$ 51,750
Debt	65,901	57,287
Common shares	35,058	47,240
	$ 179,788	$ 156,277

As at March 31, 2015, $2.0 million (2014 – $2.5 million) of venture capital debt investments is due to the corporation within one year, $53.4 million (2014 – $54.8 million) is due between one and five years and $10.5 million (2014 – nil) is due later than five years.

Concentrations of venture capital investments by sector

($ thousands)	March 31, 2015	March 31, 2014
Food processing and manufacturing	$ 108,554	$ 72,869
Agriculture biotechnology	55,084	35,822
Bio-based fuels and chemicals	16,150	47,586
	$ 179,788	$ 156,277

For the year ended March 31, 2015, the total amount of net gains realized on the disposal of venture capital investments designated at fair value through profit or loss was $21.4 million (2014 –$5.6 million net losses).

The total amount of fees, interest and dividends recorded in interest income during the year for venture capital investments designated at fair value through profit or loss was $6.7 million (2014 – $4.7 million).

In addition to the above investments, the corporation has loans receivable from venture capital investees in the amount of $74.4 million (2014 – $38.2 million) and no guarantees from venture capital investees (2014 – $nil).

The venture capital investment portfolio exposes the corporation to credit risk. Venture capital investments are typically secured by a general security agreement, assignment of life insurance proceeds and personal guarantees. As at March 31, 2015, there were no venture capital debt investments in arrears (2014 – $nil).

The potential effect of using reasonable possible alternative assumptions for valuing venture capital investments that are measured at fair value would not have a material effect on the corporation's financial position or earnings.

10. Equipment and leasehold improvements

($ thousands)	Leasehold improvements	Office equipment and furniture	Computer equipment	Total
Cost				
Balance as at March 31, 2013	$ 47,412	$ 26,184	$ 13,276	$ 86,872
Additions	6,474	2,932	1,752	11,158
Disposals	(2,893)	(902)	(1,159)	(4,954)
Balance as at March 31, 2014	50,993	28,214	13,869	93,076
Additions	1,801	364	1,085	3,250
Disposals	(805)	(63)	(1,392)	(2,260)
Balance as at March 31, 2015	**$ 51,989**	**$ 28,515**	**$ 13,562**	**$ 94,066**
Accumulated depreciation				
Balance as at March 31, 2013	$ 31,979	$ 21,216	$ 10,210	$ 63,405
Depreciation	6,507	2,526	1,890	10,923
Disposals	(2,862)	(887)	(1,178)	(4,927)
Balance as at March 31, 2014	35,624	22,855	10,922	69,401
Depreciation	5,925	2,077	1,769	9,771
Disposals	(796)	(63)	(1,389)	(2,248)
Balance as at March 31, 2015	**$ 40,753**	**$ 24,869**	**$ 11,302**	**$ 76,924**
Carrying value				
March 31, 2014	$ 15,369	$ 5,359	$ 2,947	$ 23,675
March 31, 2015	**11,236**	**3,646**	**2,260**	**17,142**

11. Computer software

($ thousands)	Internally developed	Purchased	Total
Cost			
Balance as at March 31, 2013	$ 110,077	$ 10,048	$ 120,125
Additions	4,815	446	5,261
Balance as at March 31, 2014	114,892	10,494	125,386
Additions	6,157	441	6,598
Disposals	(3,971)	–	(3,971)
Balance as at March 31, 2015	**$ 117,078**	**$ 10,935**	**$ 128,013**
Accumulated amortization			
Balance as at March 31, 2013	$ 74,606	$ 7,190	$ 81,796
Amortization	10,632	971	11,603
Balance as at March 31, 2014	85,238	8,161	93,399
Amortization	9,974	901	10,875
Disposals	(1,620)	-	(1,620)
Balance as at March 31, 2015	**$ 93,592**	**$ 9,062**	**$ 102,654**
Carrying value			
March 31, 2014	$ 29,654	$ 2,333	$ 31,987
March 31, 2015	**23,486**	**1,873**	**25,359**

Research and development costs related to internally developed computer software in the amount of $15.6 million (2014 – $9.2 million) have been included within facilities, software and equipment expenses.

12. Equipment under operating leases

($ thousands)	
Cost	
Balance as at March 31, 2013	$ 52,755
Additions	32,296
Disposals	(11,886)
Balance as at March 31, 2014	73,165
Additions	38,173
Disposals	(16,448)
Balance as at March 31, 2015	**$ 94,890**
Accumulated depreciation	
Balance as at March 31, 2013	$ 12,669
Depreciation	10,575
Disposals	(4,882)
Balance as at March 31, 2014	18,362
Depreciation	13,515
Disposals	(7,208)
Balance as at March 31, 2015	**$ 24,669**
Carrying value	
March 31, 2014	$ 54,803
March 31, 2015	**70,221**

13. Other assets

($ thousands)	March 31, 2015	March 31, 2014
Insurance reserve assets	$ 20,722	$ 19,888
Post-employment benefit assets (Note 15)	–	1,661
Real estate property held for sale	–	706
Other	–	18
	$ 20,722	$ 22,273

14. Borrowings

Short-term debt

($ thousands)	March 31, 2015	March 31, 2014
Government of Canada debt		
Floating-rate borrowings	**$ 9,738,627**	$ 5,637,602
Fixed-rate borrowings	**3,610,699**	4,523,938
	13,349,326	10,161,540
Capital markets debt		
USD fixed-rate promissory notes (1)	**252,050**	196,764
Retail and institutional fixed-rate notes	**108,047**	–
	360,097	**196,764**
	$ 13,709,423	$ 10,358,304

(1) $199.0 million USD (2014 – $178.0 million USD)

Short-term debt by maturity date

	March 31, 2015				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	**$ 3,597,497**	**0.61%**	**$ 252,050**	**0.72%**	**$ 3,849,547**
From 4 – 6 months	**3,463,095**	**0.59%**	**–**	**–**	**3,463,095**
From 7 – 9 months	**3,721,728**	**0.60%**	**108,047**	**4.37%**	**3,829,775**
From 10 – 12 months	**2,567,006**	**0.55%**	**–**	**–**	**2,567,006**
	$ 13,349,326		**$ 360,097**		**$ 13,709,423**

	March 31, 2014				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 0 – 3 months	$ 5,287,542	0.79%	$ 196,764	0.08%	$ 5,484,306
From 4 – 6 months	1,495,377	0.84%	–	–	1,495,377
From 7 – 9 months	1,066,901	0.83%	–	–	1,066,901
From 10 – 12 months	2,311,720	0.92%	–	–	2,311,720
	$ 10,161,540		$ 196,764		$ 10,358,304

The corporation has a demand operating line of credit, which provides overdraft protection in the amount of $30.0 million (2014 – $30.0 million). Indebtedness under this agreement is unsecured and this credit facility does not expire. Any draws made throughout the year on this credit facility are reversed the next day. As at March 31, 2015, there were no draws on this credit facility (2014 – $nil).

14. Borrowings (continued)

Long-term debt

($ thousands)	March 31, 2015	March 31, 2014
Government of Canada debt		
Floating-rate borrowings	**$ 6,837,611**	$ 9,918,918
Fixed-rate borrowings	**2,575,702**	2,096,083
	9,413,313	12,015,001
Retail and institutional fixed-rate notes	**309,211**	416,588
	$ 9,722,524	$ 12,431,589

Long-term debt by maturity date

	March 31, 2015				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	**$ 6,120,602**	**0.58%**	**$ –**	**–**	**$ 6,120,602**
From 2 – 3 years	**1,988,648**	**0.96%**	**–**	**–**	**1,988,648**
From 3 – 4 years	**1,074,458**	**1.33%**	**–**	**–**	**1,074,458**
From 4 – 5 years	**36,164**	**1.77%**	**–**	**–**	**36,164**
Over 5 years	**193,441**	**1.89%**	**309,211**	**4.37%**	**502,652**
	$ 9,413,313		**$ 309,211**		**$ 9,722,524**

	March 31, 2014				
	Government of Canada		Capital markets		
($ thousands)	Carrying value	Yield	Carrying value	Yield	Total
From 1 – 2 years	$ 7,723,218	0.87%	$ 108,385	4.37%	$ 7,831,603
From 2 – 3 years	2,689,355	1.42%	–	–	2,689,355
From 3 – 4 years	803,361	1.24%	–	–	803,361
From 4 – 5 years	564,402	2.04%	–	–	564,402
Over 5 years	234,665	1.90%	308,203	4.37%	542,868
	$ 12,015,001		$ 416,588		$ 12,431,589

15. Post-employment benefits

Plan amendments

Effective January 1, 2015, FCC amended the eligibility requirement of the other post-employment benefits plan. The service requirement has been increased to 10 years from two. For the year ended March 31, 2015, a negative past service cost of $8.8 million has been recorded in benefits expense (2014 – $nil).

Financial position of benefit plans

The corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year.

The amounts recognized in the Consolidated Balance Sheet are as follows:

	Registered pension plan	
($ thousands)	**March 31, 2015**	March 31, 2014
Present value of funded defined benefit obligations	**$ (650,819)**	$ (515,887)
Fair value of plan assets	**627,232**	517,548
Net (liability) asset for defined benefit obligations (1)	**$ (23,587)**	$ 1,661

	Supplemental pension plans	
($ thousands)	**March 31, 2015**	March 31, 2014
Present value of funded defined benefit obligations	**$ (56,815)**	$ (44,116)
Fair value of plan assets	**45,849**	40,979
Funded status	**(10,966)**	(3,137)
Present value of unfunded defined benefit obligations	**(15,220)**	(11,944)
Net liability for defined benefit obligations (1)	**$ (26,186)**	$ (15,081)

	Other benefits	
($ thousands)	**March 31, 2015**	March 31, 2014
Present value of unfunded defined benefit obligations	**$ (93,790)**	$ (83,379)
Net liability for defined benefit obligations (1)	**$ (93,790)**	$ (83,379)

(1) The total net liability for defined benefit obligations of all three plans is $143,563 (2014 – $98,460). This amount is recorded on the Consolidated Balance Sheet as post-employment benefit liabilities. The total net asset for defined benefit obligations of all three plans is $nil (2014 – $1,661). This amount is recorded on the Consolidated Balance Sheet in other assets.

15. Post-employment benefits (continued)

Movements in the present value of the defined benefit obligation

($ thousands)	Registered pension plan		Supplemental pension plans		Other benefits	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Defined benefit obligation, beginning of year	**$ 515,887**	$ 537,799	**$ 56,060**	$ 59,342	**$ 83,379**	$ 76,478
Current service cost	**22,680**	32,239	**1,674**	2,644	**5,458**	5,529
Past service cost	**–**	–	**–**	–	**(8,794)**	–
Interest cost on the defined benefit obligation	**23,713**	22,828	**2,479**	2,463	**3,889**	3,263
Contributions by employees	**7,047**	6,350	**–**	122	**–**	–
Benefits paid	**(13,502)**	(11,489)	**(2,838)**	(1,039)	**(812)**	(727)
Experience adjustments on plan liabilities	**(3,285)**	(7,738)	**4,209**	(646)	**(1,966)**	(142)
Actuarial loss (gain) from changes in financial assumptions	**98,279**	(109,300)	**10,451**	(12,922)	**12,636**	(9,328)
Actuarial loss from changes in demographic assumptions	**–**	45,198	**–**	6,096	**–**	8,306
Defined benefit obligation, end of year	**$ 650,819**	$ 515,887	**$ 72,035**	$ 56,060	**$ 93,790**	$ 83,379

The duration of the registered pension plan's defined benefit obligation is 21 years (2014 – 20 years). The duration of the supplemental pension plan's defined benefit obligation is 20 years (2014 – 20 years).

Movements in the fair value of plan assets

($ thousands)	Registered pension plan		Supplemental pension plans		Other benefits	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Fair value of plan assets, beginning of year	**$ 517,548**	$ 414,691	**$ 40,979**	$ 33,327	**$ –**	$ –
Interest income on plan assets	**23,850**	17,453	**1,753**	1,374	**–**	–
Return on plan assets greater than the discount rate	**36,304**	41,710	**5,421**	4,211	**–**	–
Contributions by the corporation	**56,769**	49,596	**615**	4,117	**812**	**727**
Contributions by employees	**7,047**	6,350	**–**	122	**–**	–
Benefits paid	**(13,502)**	(11,489)	**(2,838)**	(1,039)	**(812)**	**(727)**
Plan administration costs	**(784)**	(763)	**(45)**	(49)	**–**	–
Tax effect on refundable tax assets	**–**	–	**(36)**	(1,084)	**–**	–
Fair value of plan assets, end of year	**$ 627,232**	$ 517,548	**$ 45,849**	$ 40,979	**$ –**	$ –

15. Post-employment benefits (continued)

Defined benefit costs recognized in net income

($ thousands)	Registered pension plan		Supplemental pension plans		Other benefits	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Current service cost (1)	**$ 22,680**	$ 32,239	**$ 1,674**	$ 2,644	**$ 5,458**	$ 5,529
Past service cost (2)	**–**	–	**–**	–	**(8,794)**	–
Net interest (3)	**(137)**	5,375	**726**	1,089	**3,889**	3,263
Plan administration costs (4)	**784**	763	**45**	49	**–**	–
Tax effect on refundable tax assets (5)	**–**	–	**36**	772	**–**	–
	$ 23,327	$ 38,377	**$ 2,481**	$ 4,554	**$ 553**	$ 8,792

(1) Total current service cost of $29,812 (2014 – $40,412) is recorded in benefits expense.
(2) Total past service cost of $(8,794) (2014 – $nil) is recorded in benefits expense.
(3) Total net interest of $4,478 (2014 – $9,727) is recorded in benefits expense.
(4) Total plan administration costs of $829 (2014 – $812) is recorded in benefits expense.
(5) Total tax effect of refundable tax assets of $36 (2014 – $772) is recorded in benefits expense.

Defined benefit costs recognized in OCI

($ thousands)	Registered pension plan	
	March 31, 2015	March 31, 2014
Experience adjustments on plan liabilities	**$ 3,285**	$ 7,738
Return on plan assets greater than the discount rate	**36,304**	41,710
Changes in liability assumptions	**(98,279)**	64,102
Remeasurement (loss) gain (1)	**$ (58,690)**	$ 113,550

($ thousands)	Supplemental pension plans	
	March 31, 2015	March 31, 2014
Experience adjustments on plan liabilities	**$ (4,209)**	$ 646
Return on plan assets greater than the discount rate	**5,421**	4,211
Changes in liability assumptions	**(10,451)**	6,826
Tax effect on refundable tax assets	**–**	(312)
Remeasurement (loss) gain (1)	**$ (9,239)**	$ 11,371

($ thousands)	Other benefits	
	March 31, 2015	March 31, 2014
Experience adjustments on plan liabilities	**$ 1,966**	$ 142
Changes in liability assumptions	**(12,636)**	1,022
Remeasurement (loss) gain (1)	**$ (10,670)**	$ 1,164

(1) Remeasurement losses of $78,599 (2014 – $126,085 gains) are recognized in OCI.

The cumulative remeasurement losses recognized in OCI as at March 31, 2015, were $110.7 million (2014 – $32.1 million).

15. Post-employment benefits (continued)

Plan assets

The percentages of plan assets by asset type based on market values at the most recent actuarial valuation are as follows:

	Registered pension plan		Supplemental pension plans	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014
Equity securities	**59.3%**	62.7%	**98.7%**	92.8%
Debt securities	**30.4%**	27.9%	**1.3%**	1.3%
Real estate	**9.0%**	7.9%	**–**	–
Cash	**1.3%**	1.5%	**–**	5.9%
	100.0%	100.0%	**100.0%**	100.0%

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	Registered pension benefits		Registered pension plan		Supplemental pension plans	
	March 31, 2015	March 31, 2014	**March 31, 2015**	March 31, 2014	**March 31, 2015**	March 31, 2014
Defined benefit obligation						
Discount rate	**3.50%**	4.40%	**3.50%**	4.40%	**3.50%**	4.40%
Rate of compensation increase	**4.00%**	4.50%	**4.00%**	4.50%	**4.00%**	4.50%
Consumer price index	**2.00%**	2.00%	**2.00%**	2.00%	**–**	–
Defined benefit costs						
Discount rate	**4.40%**	4.00%	**4.40%**	4.00%	**4.40%**	4.00%
Consumer price index	**2.00%**	2.50%	**2.00%**	2.50%	**–**	–

At March 31, 2015 and 2014, the mortality assumption for the defined benefit obligation is based on the 2014 Public Sector Mortality (Canadian Pensioners Mortality 2014 publication) and Canadian Pensioners Mortality Improvement Scale B, with pension size adjustment factors for males of 0.8614 and for females of 0.9855. As at March 31, 2015, the average life expectancy of an individual retiring at age 65 is 24 years for males (2014 – 24 years) and 26 years for females (2014 – 25 years).

Assumed health-care cost trend rates are as follows:

	March 31, 2015	March 31, 2014
Extended health-care and dental care cost escalation		
Initial rate	**8.00%**	8.00%
Ultimate rate	**5.00%**	5.00%
Year ultimate rate reached	**2021**	2021

15. Post-employment benefits (continued)

Sensitivity analysis

The impact of changing the key weighted-average economic assumptions used in measuring the pension and other benefit costs is as follows:

	Registered pension plan	Supplemental pension plans	Other benefits
1% increase in discount rate			
Total of service and net interest costs	(12,239)	(878)	(1,767)
Defined benefit obligation	(119,295)	(12,232)	(21,337)
1% decrease in discount rate			
Total of service and net interest costs	14,350	520	2,468
Defined benefit obligation	161,273	16,117	30,561
0.25% increase in rate of compensation increase			
Total of service and net interest costs	933	268	23
Defined benefit obligation	6,118	2,131	100
0.25% decrease in rate of compensation increase			
Total of service and net interest costs	(943)	(217)	(23)
Defined benefit obligation	(6,183)	(1,835)	(100)
1% increase in consumer price index			
Total of service and net interest costs	9,138	643	–
Defined benefit obligation	112,396	12,370	–
1% decrease in consumer price index			
Total of service and net interest costs	(7,310)	(526)	–
Defined benefit obligation	(90,008)	(9,958)	–
One year increase in expected lifetime of plan participants			
Total of service and net interest costs	1,087	88	320
Defined benefit obligation	15,880	1,737	3,434
1% increase in assumed overall health-care cost trend rates			
Total of service and net interest costs	–	–	3,285
Defined benefit obligation	–	–	27,208
1% decrease in assumed overall health-care cost trend rates			
Total of service and net interest costs	–	–	(2,268)
Defined benefit obligation	–	–	(19,476)

Defined contribution plans

The cost of the defined contribution plans is recorded based on the contributions in the current year and is included in benefits expense. For the year ended March 31, 2015, the expense was $4.5 million (2014 – $4.2 million).

Total cash payments

Total cash payments for post-employment benefits, consisting of cash contributed by the corporation to its funded pension plans, cash payments directly to beneficiaries for its unfunded other benefit plans and cash contributed to its defined contribution plan, were $63.0 million (2014 – $59.1 million).

Total cash payments for post-employment benefits for 2016, as described in the preceding paragraph, are anticipated to be approximately $46.2 million.

16. Other liabilities

($ thousands)	March 31, 2015	March 31, 2014
Reserve for insurance claims	$ 9,821	$ 9,573
Deferred revenues	7,978	6,225
Other	1,194	548
	$ 18,993	$ 16,346

17. Net interest income

($ thousands)	March 31, 2015	March 31, 2014
Interest income		
Loans and receivables	$ 1,119,304	$ 1,097,693
Transfer of net realized gains on derivatives designated as cash flow hedges from AOCI to net income	22,933	22,684
Foreign exchange gains on loans and receivables	20,145	6,999
Operating leases	15,790	12,350
Hedging derivative financial assets and liabilities designated as cash flow hedges – net	10,806	4,456
Temporary investments and cash equivalents designated as AFS	10,774	10,753
Finance leases designated as loans and receivables	703	654
Total interest income for financial instruments not at fair value through profit or loss	1,200,455	1,155,589
Venture capital investments designated at fair value through profit or loss	6,680	4,090
	1,207,135	1,159,679
Interest expense		
Long-term debt classified as other liabilities	199,582	194,792
Short-term debt classified as other liabilities	34,006	55,245
Foreign exchange losses on cash and short-term debt classified as other liabilities – net	19,303	6,998
Depreciation on equipment under operating leases	13,515	10,574
Transition loan liabilities classified as other liabilities	2,570	2,404
Total interest expense for financial instruments not at fair value through profit or loss	268,976	270,013
Derivative financial assets and liabilities classified as HFT – net	(89)	(3)
Short-term debt designated at fair value through profit or loss	–	14
	268,887	270,024
Net interest income	$ 938,248	$ 889,655

The total net fee income that was recognized immediately in net interest income arising from financial assets and liabilities not measured at fair value through profit or loss was $4.0 million (2014 – $5.0 million). Interest income recognized from the unwinding of discounts on impaired financial assets was $0.5 million (2014 – $2.8 million).

The corporation has reclassified certain comparative figures in the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows to better reflect the nature of expenses as well as to conform to the current year presentation. The reclassification was immaterial and did not have an impact on the Consolidated Statement of Comprehensive Income. As at March 31, 2014, $10.6 million of depreciation on equipment under operating leases has been reclassified from amortization and depreciation expense, included in administration expenses, to interest expense.

18. Fair value adjustment

($ thousands)	March 31, 2015	March 31, 2014
Venture capital investments designated at fair value through profit or loss	$ 17,667	$ 32,627
Guarantees	7	(6)
Ineffectiveness of cash flow hedges	(4,215)	6,387
Long-term debt designated at fair value through profit or loss	–	7
Derivative financial assets and liabilities classified as HFT	–	(7)
	$ 13,459	$ 39,008

19. Fair value of financial instruments

Financial instruments carried at fair value

The corporation follows a three-level fair value hierarchy to categorize the inputs used to measure fair value. Level 1 is based on quoted prices in active markets, Level 2 incorporates models using inputs other than quoted prices and Level 3 incorporates models using inputs that are not based on observable market data. Details of the valuation methodologies applied and assumptions used in determining fair value are provided in Note 2.

Valuation hierarchy

The following table categorizes the level of inputs used in the valuation of financial instruments carried at fair value:

	March 31, 2015			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ –	$ 1,072,326	$ –	$ 1,072,326
Derivative financial assets	–	58,828	–	58,828
Venture capital investments	7,730	–	172,058	179,788
	$ 7,730	$ 1,131,154	$ 172,058	$ 1,310,942

	March 31, 2014			
($ thousands)	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ –	$ 907,520	$ –	$ 907,520
Temporary investments	–	140,780	–	140,780
Derivative financial assets	–	53,201	–	53,201
Venture capital investments	846	–	155,431	156,277
	$ 846	$ 1,101,501	$ –	$ 1,257,778
Liabilities				
Derivative financial liabilities	$ –	$ 2,527	$ 0	$ 2,527

Changes in valuation methods may result in transfers into or out of Levels 1, 2 and 3. For the year ended March 31, 2015, there were no transfers between levels (2014 – $nil).

19. Fair value of financial instruments (continued)

Level 3 financial instruments

The following table summarizes the changes in the Level 3 valuation hierarchy that occurred during the year:

	March 31, 2015			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ –	$ 155,431	$ –	$ 155,431
Net gains recognized in fair value adjustment	–	10,783	–	10,783
Change in accrued interest	–	2,601	–	2,601
Acquisitions	–	39,186	–	39,186
Repayments	–	(35,943)	–	(35,943)
Balance, end of year	$ –	$ 172,058	$ –	$ 172,058

	March 31, 2014			
($ thousands)	Derivative financial assets and liabilities	Venture capital investments	Structured notes	Total
Balance, beginning of year	$ 11	$ 72,820	$ (198)	$ 72,633
Net (losses) gains recognized in fair value adjustment	(7)	37,888	7	37,888
Change in accrued interest	(4)	2,127	4	2,127
Acquisitions	–	48,604	–	48,604
Repayments	–	(6,008)	187	(5,821)
Balance, end of year	$ –	$ 155,431	$ –	$ 155,431

Net unrealized gains and losses relating to instruments still held at the reporting date recognized in the fair value adjustment are a $17.5 million gain (2014 – $15.3 million gain).

Financial instruments not carried at fair value

The estimated fair value of the corporation's financial instruments that do not approximate carrying values in the financial statements, using the methods and assumptions described below, are as follows:

	March 31, 2015		March 31, 2014	
($ thousands)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Assets				
Loans receivable	$ 27,102,815	$ 27,446,135	$ 25,671,535	$ 25,826,685
Finance leases receivable	15,497	15,351	15,511	15,657
Liabilities				
Long-term debt	9,722,524	9,845,813	12,431,589	12,508,770

Financial instruments not carried at fair value as noted in the above table are considered to use Level 2 inputs in determining estimated fair value.

19. Fair value of financial instruments (continued)

The estimated fair value for the performing fixed-rate loans receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The estimated fair value for the performing variable-rate loans receivable approximates the carrying value due to having fluctuating interest rates that directly correspond to changes in the prime interest rate, on which the fair value is based. The collective allowance for credit losses related to loans receivable is subtracted from the estimated fair value of the performing loans receivable. The estimated fair value of the impaired loans receivable is equal to its net realizable value, which is calculated by subtracting the individual allowance for credit losses from the book value of the impaired loans receivable.

The estimated fair value for the finance leases receivable is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity. The collective allowance for credit losses related to finance leases is subtracted from the estimated fair value of the finance leases receivable.

The estimated fair value for long-term debt is calculated by discounting contractual cash flows at interest rates prevailing at year-end for equivalent terms to maturity.

For all other financial instruments carried at amortized cost using the effective interest method, the carrying value approximates fair value due to the relatively short period to maturity of these instruments or because they are already at discounted values. This applies to the corporation's cash, accounts receivable, other assets, accounts payable and accrued liabilities, short-term debt, transition loan liability and other liabilities excluding the reserve for insurance claims.

20. Operating lease arrangements

Operating leases as a lessor

Operating leases consist of agricultural equipment leased to customers under non-cancellable operating lease agreements. The initial lease terms of operating leases range from two to five years.

The future minimum lease payments are receivable as follows:

($ thousands)	**March 31, 2015**	March 31, 2014
Amounts due		
Less than one year	**$ 15,309**	$ 11,963
Between one and five years	**28,795**	24,017
	$ 44,104	$ 35,980

Operating leases as a lessee

The corporation leases office space under operating leases. The lease terms are typically five to 10 years, with an option to renew the lease after that date.

The future minimum lease payments under non-cancellable lease contracts are payable as follows:

($ thousands)	**March 31, 2015**	March 31, 2014
Amounts due		
Less than one year	**$ 17,215**	$ 16,055
Between one and five years	**48,522**	47,257
Greater than five years	**107,112**	115,677
	$ 172,849	$ 178,989

Operating lease payments in the amount of $18.0 million (2014 – $17.2 million) have been included within facilities, software and equipment expense.

21. Commitments, guarantees and contingent liabilities

Loan and lease commitments

As at March 31, 2015, loans approved but undisbursed amounted to $2,996.2 million (2014 – $2,948.9 million). These loans were approved at an average interest rate of 3.64% (2014 – 3.87%) and do not form part of the loans receivable balance until disbursed. As many of these loan approvals will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements. As at March 31, 2015, finance leases approved but undisbursed amounted to $5.7 million (2014 – $3.0 million) and operating leases approved but undisbursed amounted to $1.2 million (2014 – $2.3 million). These leases do not form part of the finance leases receivable or equipment under operating leases balances until disbursed. These commitments do not generate liquidity risk to the corporation because it has sufficient funds available from the Government of Canada through the Crown Borrowing Program to meet its future cash requirements.

Venture capital commitments

As at March 31, 2015, the corporation has committed to invest $2.7 million (2014 – $3.7 million) in venture capital investments.

Operating commitments

Future minimum payments on contracts for technology and other services are payable as follows.

($ thousands)	March 31, 2015	March 31, 2014
Amounts due		
Less than one year	**$ 15,200**	$ 11,306
Between one and five years	**5,171**	14,217
	$ 20,371	$ 25,523

Capital commitments

Capital expenditures contracted for computer software at the end of the fiscal year but not yet incurred are $9.6 million (2014 – $5.2 million). Capital expenditures contracted for equipment and leasehold improvements at the end of the fiscal year but not yet incurred are $6.0 million (2014 – $nil).

Funding commitments for post-employment benefits plans

Funding commitments for post-employment benefit plans at the end of the fiscal year are $26.0 million (2014 – $26.4 million) each year for the next five years.

Guarantees

In the normal course of its business, the corporation issues guarantees in the form of letters of credit that represent an obligation to make payments to third parties on behalf of its customers if customers are unable to make the required payments or meet other contractual obligations. The maximum amount potentially payable as at March 31, 2015, is $4.5 million (2014 – $1.2 million). In the event of a call on these letters of credit, the corporation has recourse in the form of security against its customers for amounts to be paid to the third party. Existing guarantees will expire within three years, usually without being drawn upon. As at March 31, 2015, an amount of $nil (2014 – $nil) was recorded for these letters of credit.

21. Commitments, guarantees and contingent liabilities (continued)

Contingent liabilities and provisions

Various legal proceedings arising from the normal course of business are pending against the corporation. Management does not believe that liabilities arising from pending litigations will have a material adverse effect on the Consolidated Balance Sheet or the results of operations of the corporation. Therefore, no amount has been included in the consolidated financial statements as at March 31, 2015 for these contingent liabilities.

In the normal course of operations, the corporation enters into agreements that provide general indemnification. These indemnifications typically occur in service contracts and strategic alliance agreements and, in certain circumstances, may require that the corporation compensates the counterparty to the agreement for various costs resulting from breaches of representations or obligations. The corporation also indemnifies directors, officers and employees, to the extent permitted by law and the corporation's governing legislation, against certain claims that may be made against them as a result of their being directors, officers or employees. The terms of these indemnifications vary, therefore the corporation is unable to determine a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the corporation has not made any payments under such indemnifications and contingencies. No amount has been included in the consolidated financial statements as at March 31, 2015, for these indemnifications and contingencies.

22. Related party transactions

The corporation is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The corporation is related to Avrio Fund I, Avrio Fund II, Avrio Fund III and Avrio Subordinated Debt Fund. They are limited partnerships for which the corporation holds 67% (2014 – 67%), 55% (2014 – 55%), 76% (2014 – 0%) and 99% (2014 – 99%), respectively, of the partnership units. The Avrio Funds are consolidated structured entities of the corporation. All transactions between the corporation and the Avrio Funds have been eliminated on consolidation and, as such, are not disclosed as related party transactions.

Other related parties of the corporation are key management personnel, close family members of key management personnel and entities that are controlled, significantly influenced by, or for which significant voting power is held by key management personnel or their close family members, and post-employment benefit plans for the benefit of the corporation's employees.

Transactions with these entities were entered into in the normal course of business and are measured according to the relevant IFRS standard applicable to the transaction.

Transactions with the Government of Canada

The Government of Canada guarantees the borrowings of the corporation.

The corporation enters into short and long-term borrowings with the Government of Canada through the Crown Borrowing Program. As at March 31, 2015, the balances outstanding with the Government of Canada were $13,349.3 million in short-term debt (2014 – $10,161.5 million) and $9,413.3 million in long-term debt (2014 – $12,015.0 million). For the year ended March 31, 2015, $214.4 million (2014 – $228.8 million) was recorded in interest expense relating to these borrowings.

22. Related party transactions (continued)

The corporation receives government assistance in the HILLRP to share the credit losses on certain loans with the Government of Canada. The government assistance is recorded as either an increase or decrease to the provision for credit losses. For the year ended March 31, 2015, the decrease recorded to the provision for credit losses was $5.0 million (2014 – $12.6 million). The amount estimated to be returned to the Government of Canada is included in the long-term debt balances above.

The corporation pays a dividend to the Government of Canada on an annual basis, as detailed in Note 23.

Key management personnel compensation

Key management personnel includes directors and members of the Enterprise Management Team. Close family members of key management personnel are considered related parties and have been included in the amounts disclosed below.

The compensation paid during the year to key management personnel for services rendered is shown below:

($ thousands)	March 31, 2015	March 31, 2014
Salaries and other short-term employee benefits	$ 4,395	$ 3,575
Post-employment benefits	688	1,224
Board retainer and per diems	188	166
Total	$ 5,271	$ 4,965

Transactions with key management personnel

All transactions with key management personnel are with directors and entities related to those directors. The terms and conditions of the transactions with key management personnel were no more favourable than those available on similar transactions with other customers.

Loans to key management personnel outstanding as at March 31, 2015, were $5.9 million (2014 – $5.0 million). The maximum balance outstanding on these loans during the year ended March 31, 2015, was $8.8 million (2014 – $5.5 million). The weighted average interest rate on the loans to key management personnel outstanding as at March 31, 2015, was 6% (2014 – 6%).

The loans to key management personnel are secured under similar conditions as transactions with other customers and the key management personnel entering into these transactions were subject to the same credit assessment process applied to all customers. There is no individual allowance established as at March 31, 2015, for the loans made to key management personnel (2014 – $nil).

Undrawn credit commitments with key management personnel totalled $6.5 million as at March 31, 2015 (2014 – $11.3 million).

Transactions with post-employment benefit plans

During the year, $133.2 thousand was received from the defined benefit plan (2014 – $173.3 thousand) for administrative services and was recorded in benefits expense.

23. Capital management

The corporation manages capital in compliance with its Board-approved capital management policy and framework. The capital management policy and framework outline the corporation's approach to assessing capital requirements for risks identified through its enterprise risk management (ERM) framework. The corporation changed its objective for the management of its capital from the prior year. The new objective of the capital management policy and framework is to maintain a safe and sound capital position and manage capital to withstand economic downturn and periods of extended loss. This will allow the corporation to continue to serve the industry through all economic cycles.

The corporation also changed what it manages as capital and how it manages capital from the prior year. Previously, the corporation included within total capital its allowance for credit losses and non-controlling interest in structured entities. In order to adhere to the Capital Adequacy Requirements (CAR) guideline issued by the Office of the Superintendent of Financial Institutions (OSFI), the corporation no longer includes these amounts in its total capital and also makes adjustments to its total capital for the required regulatory adjustments prescribed by CAR. In addition, in the prior year, the corporation presented its level of capitalization as a percentage of gross assets that do not require funding through borrowings. The corporation now manages its capital using a total capital ratio, dividing total capital by risk-weighted assets, as defined by the CAR guideline. This total capital ratio is then compared to the minimum capital requirements established by CAR.

Debt to equity

The corporation's only statutory limit, as prescribed by the Farm Credit Canada Act, requires that the corporation's total direct and contingent liabilities not exceed 12 times equity. As at March 31, 2015, the corporation's total direct and contingent liabilities were 5.03 times the shareholder's equity, excluding AOCI (2014 – 5.73 times the shareholder's equity, excluding AOCI).

Total capital and minimum regulatory capital

Although not formally regulated, the corporation follows the CAR guideline as issued by OSFI, which is based on the Basel III framework. The CAR guideline outlines how to assess a total capital ratio and a minimum regulatory capital ratio.

The corporation's total capital consists of retained earnings, contributed surplus and AOCI, and is net of required regulatory adjustments as outlined in the CAR guideline. Applicable adjustments include the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets. All of the corporation's capital is considered Common Equity Tier 1 (CET1) capital, therefore total capital and CET1 capital are equivalent. The corporation's calculation of its total capital ratio is provided on the following page.

23. Capital management (continued)

The total capital ratio is calculated by dividing total capital by risk-weighted assets (RWA), as outlined in OSFI's CAR guideline. As at March 31, 2015 and 2014, the corporation's total capital ratio was greater than the minimum regulatory capital ratio and therefore in compliance with OSFI's CAR guideline.

($ thousands)	March 31, 2015	March 31, 2014
Capital		
Retained earnings	**$ 4,175,856**	$ 3,476,801
Contributed surplus	**547,725**	547,725
AOCI	**130,944**	141,389
Required regulatory adjustments:		
Intangible assets	**(25,359)**	(31,987)
Accumulated net gains on derivative designated as cash flow hedges	**(131,501)**	(141,926)
Post-employment benefit assets	**–**	(1,661)
CET1/Total capital	**$ 4,697,665**	$ 3,990,341
Risk-weighted assets		
Credit risk-weighted assets	**$ 28,439,340**	$ 27,525,421
Operational risk-weighted assets	**1,678,630**	1,612,433
Total risk-weighted assets	**$ 30,117,970**	$ 29,137,854
Total capital ratio	**15.6%**	13.7%
Minimum regulatory capital ratio	**10.5%**	10.5%

Contributed surplus

The corporation's contributed surplus consists of capital contributions made by the Government of Canada net of the March 31, 1998, reallocation of $660.6 million to eliminate the corporation's accumulated deficit.

As at March 31, 2015, cumulative capital payments received from the Government of Canada amounted to $1,208.3 million (2014 – $1,208.3 million). No capital payments have been received since 2006. The statutory limit for that same period was $1,250.0 million (2014 – $1,250.0 million).

Dividend

On March 11, 2015, the Board declared a dividend based on the results of the year ended March 31, 2014, in the amount of $126.1 million (2014 – $50.3 million based on the year ended March 31, 2013) to the corporation's shareholder, the Government of Canada, which was paid on March 24, 2015.

24. Risk management

Risk governance

The corporation has established a governance framework that includes a number of policies and internal committees to guide corporate decision-making. The Board provides oversight for this internal corporate governance framework. The Board also oversees the Enterprise Risk Management (ERM) program, internal systems and practices to ensure that risk management is integrated with strategic, financial and operating plans.

The Board has established four committees to help fulfil its oversight role. The Board's committees are responsible for developing and monitoring aspects of the corporation's overall risk management policies, processes and practices. Internal committees report regularly to the Board and its committees.

- The Risk Committee oversees enterprise-wide risk management and ensures risk management activities are separate from operational management. The committee also oversees organizational compliance with the corporation's risk management policies and the effectiveness of systems and programs related to capital requirements.
- The Audit Committee oversees the integrity, accuracy and timeliness of the corporation's financial reporting. This includes ensuring an ongoing working relationship between the corporation and the Office of the Auditor General of Canada. The committee also oversees the corporation's internal audit function to ensure compliance with laws, regulations and ethical conduct.
- The Corporate Governance Committee reviews, reports and when appropriate, recommends governance matters to the Board. This includes the corporation's strategic planning process, code of conduct and ethics and corporate social responsibility strategy. The committee also has the mandate to provide recommendations regarding the appointment of directors and the Board Chair.
- The Human Resources Committee oversees the corporation's human resources plan and policies and its pension plans. The committee also oversees President and Chief Executive Officer (CEO) selection, goal setting and performance review, as well as the corporate compensation structure and succession planning for senior managers.

The Board has established a risk appetite statement for the corporation as the criteria to assess risk. The statement consists of three principles that outline the level of risk the corporation is willing to take, accept and avoid. A series of supporting statements provides additional information and context. The risk appetite statement is widely shared throughout the corporation.

The core principles of the statement are as follows:

- We use our understanding of agriculture financing to take prudent risks that are good for the customer, the corporation and the agriculture industry.
- We accept the risk of taking a long-term view in order to maintain a steady presence in the marketplace.
- We act with integrity and avoid risks that could jeopardize our mandate, our financial viability and our reputation.

24. Risk management (continued)

The corporation uses a three lines of defence model to govern risk related to key business processes. Policies outline risk-taking and risk-management functions and then cascade risk management authorities to various operational units congruent with the authorities of the President and CEO, Chief Risk Officer (CRO) and the Vice-President, Internal Audit. The authorities maintain three distinct and independent lines of defence:

- The first line of defence develops and executes the corporation's business strategy. This includes the ability to make loans, fund the portfolio, develop products, pursue markets and other risk-taking decisions. These decisions are made within the context of the risk appetite statement. These responsibilities are outlined in the role of the President and CEO and are cascaded throughout the corporation.

  The President and CEO is the primary interface with the Board and can delegate authority to senior management to carry out the responsibilities. The President and CEO is responsible for organizational structure and operational and business policies. The President and CEO also ensures the corporation's risk management functions have the necessary resources and support to fulfil their duties, are independent of operational management and have the capacity to offer objective opinions and advice to senior managers and the Board. The President and CEO is responsible for the implementation of several major risk-related policies and the corporation's performance relative to the risk appetite statement. The President and CEO is also responsible for ensuring the effectiveness of the corporation's operational risk controls and compliance with applicable laws, regulations and guidelines.

- The second line of defence effectively challenges risk-taking decisions made by the first line relative to the risk appetite statement. This includes setting risk policy, monitoring compliance to policy, reporting risks to management and the Board and challenging the risk-taking decisions.

  The CRO leads a risk division that is independent of the corporation's operations. The CRO is independent of operational management and reports directly to the Board's Risk Committee. The CRO oversees risk management at all levels across the corporation and reports to the Risk Committee about whether the corporation is operating within its risk appetite statement and risk policy limits. The CRO works with business units to design and implement action plans in the event of policy breaches and ensures that applicable business functions provide accurate and objective risk reports.

- The third line of defence assures the Board that the corporation appropriately takes and manages risk within the risk appetite statement. This includes reviewing the first- and second-line functions.

  The Internal Audit business function provides objective assurance to the Board and the corporation's executive about the effective operation of risk management practices and internal controls, and employee compliance with risk policies. It audits operational and risk management activities across the corporation and provides its findings and recommendations to the Board.

A number of committees guide corporate decision-making. These committees develop and monitor risk management processes and practices:

- The Enterprise Management Team (EMT) sets the corporation's strategy and determines which business opportunities to pursue. EMT ensures the ERM framework is implemented across the corporation.

- The Asset Liability Committee (ALCO) directs the corporation's business and financial performance relative to the approved strategy and risk appetite statement. ALCO manages the corporation's capital, interest rate risk, price, volume and margins, loan pricing, products and business lines.

24. Risk management (continued)

- The Enterprise Risk Management Committee (ERMC) advises the CRO on risk management governance. It also promotes a risk management culture throughout the corporation and the oversight of risk management practices. As an advisory group, ERMC reviews and makes recommendations about the corporation's risk structure, resources, mandate and budget. ERMC advises the CRO and Board about the risk appetite statement and tolerances, risk management frameworks and policies, compliance and risk reports, action plans to address identified gaps in risk management and any policy breaches, the fit of new products and services within the risk appetite, stress and scenario testing and the assessment of strategic risk. ERMC also reviews and approves the corporation's risk management models.

- The Operational Risk Management Committee (ORMC) champions operational risk management. As an advisory group, ORMC reviews and aligns to the operational risk management framework, challenges identified risks and manages risk treatment plans, escalating risk to ERMC as required. It also oversees and challenges control testing results and effectiveness of control monitoring, recommends policy standards for the policy governance framework, approves and sets standards for operational risk management processes, and approves and monitors the annual process review plan. ORMC provides operational risk reporting to ERMC.

- The Credit Policy Committee oversees the development of lending, leasing and custom product policies and ensures that they reflect the corporation's credit risk tolerance, risk management culture and industry best practices, complying with applicable laws and regulations.

- The Credit Committee approves large credit facilities and related loan administration matters. It ensures that activities are within the corporation's risk tolerances and in accordance with credit policies.

- The Venture Capital Committee approves capital commitments to fund managers that the corporation may partner with to make venture capital investments.

Financial risk management

The corporation has identified the major categories of financial risk to which it is exposed as credit risk, market risk and liquidity risk.

a) Credit risk

Credit risk is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. Credit risk on loan and lease receivables is the most significant risk that the corporation faces, although credit risk also exists on investments and derivative financial instruments.

Management of credit risk

The Board is responsible for approving the corporation's credit risk tolerance and relies on a number of committees, divisions and business units to effectively manage credit risk:

- The Risk Management division conducts industry, economic and portfolio analysis and reports to the various committees. A number of areas within this division are involved in managing credit risk for the corporation:

  - Portfolio Analysis and Modelling is responsible for the management, design and development of lending and credit risk-related models, lending scorecards and tools. They make model recommendations to ERMC for approval.

  - Credit Policy and Process Management is responsible for the management of the corporation's credit policies and makes recommendations to the Credit Policy Committee regarding policy changes. It also reviews, enhances and clarifies credit policies and communicates policy changes to employees. Credit Policy and Process Management provides ongoing interpretation of policy in relation to general and specific lending scenarios.

24. Risk management (continued)

- Credit Risk manages risk for scenarios outside standard policy, larger loans as well as loans above established risk thresholds. It is responsible for the credit-related delegation of authorities, credit education, coaching and credit authorization. Special Credit manages and resolves higher risk accounts experiencing challenges through the intensive management of accounts, and recovery actions when necessary.

- Valuation researches land sales, maintains benchmark data on land values and appraises the value of the corporation's security with particular emphasis on specialized enterprises and agribusinesses.

- Operations employees are delegated lending authorities and are responsible for managing credit risk on loans in their portfolio. Authority is granted on the basis of credit training and demonstrated competence, and credit decisions are made at an authority level appropriate to the size and risk of each loan. The division monitors customer and loan performance throughout the life of the loan through ongoing account management and the account review process.

- Treasury is responsible for managing counterparty credit risk related to derivative and investment activities. The division reviews counterparty credit rating actions and financial performance.

Measurement of credit risk

The Risk Management division assesses credit risk at the aggregate level, providing risk policies, assessment tools and models that quantify credit risk and the allowance for credit losses. It also monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and prices are appropriate and relevant.

Policies, processes, systems and strategies are used to manage the credit risk of the corporation's portfolio. Each year, Risk Management develops a comprehensive portfolio vision to set numeric targets for many of these tools, models and strategies. The portfolio vision is also an input used in determining customer exposure limits and approval authorities for policy.

Significant research, modelling, validation and interpretation are used to determine the targets for each tool as follows:

Credit capital

The corporation uses a credit capital model to assess capital adequacy for credit risk. The main benefits of a credit capital model are to:

- measure transaction, concentration and correlation risk
- estimate unexpected losses in the loan portfolio with a certain level of probability
- measure trends over time
- allow for risk-adjusted comparisons of geographic areas, enterprise types and business lines

Portfolio diversification plan

The portfolio diversification plan outlines the desired range for portfolio composition in five years, including diversification across enterprises, geographical areas and business lines. The desired range is evaluated against other realistically achievable scenarios to determine the demand for credit capital.

24. Risk management (continued)

Risk scoring and pricing system

The risk scoring and pricing system (RSPS) is used to rank risk for loans in the corporation's portfolio. Risk ranking is based on customer, loan and enterprise characteristics, and generates scores ranging from 400 to 999 points. Each score translates into a probability of default. The higher the score, the lower the probability of default. RSPS is also used to price loans.

RSPS scores are based on inputs that are categorized under four main themes:

- customer credit rating and historical payment performance
- customer financial ratios
- customer business experience
- customer primary enterprise

RSPS weights each characteristic differently to arrive at the final RSPS score. These weightings are based on the corporation's historical experience and are set with the objective to maximize the system's ability to predict probability of default.

In the fiscal year, the corporation completed a project to update and standardize its credit risk rating methodology and processes. Refer to Note 8 for details of the change. The updated model is currently being used for the purposes of determining the allowance for credit losses, assessing the capital ratio and internal monitoring of overall portfolio health.

Loan loss model

The loan loss model estimates incurred losses in the portfolio due to credit risk. There are two components to the loan loss model: individual and collective. The individual loan losses are determined for non-performing loans when, in management's opinion, credit quality has deteriorated to the extent that the corporation no longer has reasonable assurance of the timely collection of the full amount of principal and interest. In addition, individual loan losses are determined for loans that have met both of the following criteria:

- arrears of $500 or greater for 90 days or more
- insufficient security to recover amounts outstanding

Collective loan losses are calculated on loans within the portfolio that have no individual loan loss and have met one of these indicators of potential future impairment:

- arrears of $500 or greater for less than 90 days
- an amortization extension within the terms of the loan in the past year
- a drop in the RSPS risk score of 15 or more points in the past year

The collective allowance is also based on those losses that have been incurred but have not yet exhibited evidence of the loss. Based on historical experience, there is an emergence period between when impairment occurs and when it becomes evident in the portfolio. From the emergence period, migration rates are used to determine incurred losses within the portfolio that are not yet evident. For all components of the loss model, the model considers the security position, as well as customer, loan and security characteristics, to estimate the appropriate amount of loss allowance.

24. Risk management (continued)

Macro measures that demonstrate the health of the portfolio are as follows:

	March 31, 2015	March 31, 2014
Weighted average loan-to-security ratio for secured loans	**49.2%**	50.6%
Loans secured by a general security agreement and unsecured loans as a percentage of loans receivable	**4.3%**	3.7%

Collateral

The corporation mitigates its credit risk by employing policies and practices for collateral requirements. Credit policy establishes collateral guidelines and standards. The corporation monitors the portfolio by reviewing the loan-to-security ratio, both on an overall portfolio basis and by enterprise. Upon initial recognition of a loan, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets at intervals prescribed by policy. The form of collateral obtained is generally real estate, quotas or equipment, depending on the purpose of the loan.

Loan commitments

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk, the corporation is potentially exposed to loss in an amount equal to the total unused commitments. See Note 21 for further details regarding the corporation's loan commitments.

Maximum exposure to credit risk before collateral held or other credit enhancements

($ thousands)	**March 31, 2015**	March 31, 2014
On balance sheet		
Temporary investments	**$ –**	$ 140,780
Accounts receivable	**23,336**	93,095
Derivative financial assets	**58,828**	53,201
Loans receivable	**27,329,470**	26,223,019
Finance leases receivable	**16,616**	16,957
Venture capital investments	**179,788**	156,277
Other assets	**20,722**	4,550
	27,628,760	26,687,879
Off balance sheet		
Financial guarantees	**4,504**	1,231
Loan and lease commitments	**3,003,077**	2,954,288
Venture capital commitments	**2,731**	3,711
	3,010,312	2,959,230
Total maximum exposure to credit risk	**$ 30,639,072**	$ 29,647,109

24. Risk management (continued)

The preceding table represents a worst-case scenario of credit risk exposure to the corporation at the end of the year, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposure is based on carrying values as reported in the Consolidated Balance Sheet. For off balance sheet items, the exposure is based on the maximum amount that the corporation would have to pay if the item was called upon.

Loans receivable

Loans receivable in arrears but not impaired

A loan is considered to be in arrears when a customer has not made a payment by the contractual due date and the amount owing is greater than $500. Loans less than 90 days in arrears are not considered impaired, unless other information is available to the contrary. As well, loans in arrears are not considered impaired if they are sufficiently secured and collection efforts are reasonably expected to result in full repayment. The longer the customer is in arrears and interest continues to accrue, the greater the risk the recoverable amount from the security value is less than the carrying value of the loan. Gross amounts of loans that were in arrears but not impaired were as follows:

($ thousands)	**March 31, 2015**	March 31, 2014
In arrears but not impaired		
Up to 30 days	**$ 275,658**	$ 198,009
31 – 60 days	**31,271**	67,142
61 – 89 days	**25,160**	52,056
90 days or more	**112,542**	114,390
	$ 444,631	$ 431,597

Loans receivable neither in arrears nor impaired

The credit quality of loans that were neither in arrears nor impaired can be assessed by referencing the corporation's RSPS scores. The total owing for each RSPS score bucket as a percentage of the total owing that is neither in arrears nor impaired is as follows:

	March 31, 2015
RSPS score	
400-650	**0.5%**
651-769	**9.8%**
770-850	**78.2%**
851-999	**11.5%**
	100.00%

The majority of the RSPS scores are updated on a monthly basis. For certain types of loans, different approval and credit management processes are used. These represent approximately 5% of the corporation's total portfolio.

As discussed in Note 8, the RSPS methodology was updated during the fiscal year. This change represented a change in estimate and, as such, was applied prospectively. This being the case, comparatives are not presented in this table.

24. Risk management (continued)

Real estate property held for sale

The corporation has acquired real estate property from customers in the settlement of loan commitments with a carrying value of $nil (2014 – $0.7 million). Real estate property acquired is sold as soon as practicable with the proceeds used to reduce the outstanding customer loan balance.

Counterparty credit risk – derivatives and temporary investments

Credit risk arises from the potential for a counterparty to default on a contractual obligation to the corporation. To mitigate this risk, the corporation complies with the guidelines issued by the Minister of Finance by entering into derivatives with counterparties of high credit quality only, as determined by the published ratings of external credit rating agencies. Counterparty credit risk is managed via the corporation's Board-approved credit risk policy, which specifies the maximum exposure that the corporation will accept for each level of credit rating.

In the normal course of business, the corporation receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The corporation is normally permitted to sell, dispose, invest or re-pledge the collateral it receives under terms that are common and customary to standard derivative activities.

The counterparty derivative obligation may arise when market-related currency and interest factors change, resulting in unrealized gains to the corporation. These unrealized gains result in positive fair values for these derivative financial instruments. The corporation is not exposed to credit risk for the full notional amount of the derivative contracts, but only to the potential replacement cost if the counterparty defaults. Furthermore, standard credit mitigation via master netting agreements provided in the International Swap and Derivatives Association (ISDA) documentation provide for the simultaneous closeout and netting of positions with a counterparty in the event of default. The master netting arrangements do not meet the criteria for offsetting in the Consolidated Balance Sheet. This is because they create a right of set-off of recognized amounts that is enforceable only following an event of default of the counterparty. In addition, the corporation and its counterparties do not intend to settle on a net basis or to realize the assets and settle liabilities simultaneously. Credit Support Annex (CSA) documentation is also in place with most of the corporation's counterparties. These agreements are addendums to existing ISDA documentation, and further specify the conditions for providing the corporation with collateral in the event the counterparty credit exposure exceeds an agreed threshold. For derivative transactions where a CSA is in place, the counterparty must have a minimum long-term credit rating of A- from two or more external credit rating agencies (Standard and Poor's, Moody's or DBRS). See Note 5 for the quantification of counterparty credit risk.

ERMC and the Board have established an investment policy that sets minimum credit ratings for temporary investments and limits the size and composition of the total investment portfolio. For temporary investment activities with a term to maturity equal to or less than one year, government counterparties must have a minimum long-term credit rating of A low/A3/A- from two or more external credit rating agencies. For temporary investment activities with a term to maturity equal to or less than 90 days, schedule 1, 2 or 3 bank counterparties must have a minimum short-term credit rating of A1-/R1-low/P-1 from two or more external credit rating agencies. The actual credit ratings will determine the maximum face amount of investments per counterparty.

The corporation has controls and policies in place to protect against and minimize loss due to counterparty default. The corporation reviews credit ratings and the financial performance of counterparties regularly and recommends policy changes to ERMC and the Board.

24. Risk management (continued)

Credit quality

The following table presents the credit quality of the corporation's cash equivalents and temporary investments as rated by Standard and Poor's.

	March 31, 2015		March 31, 2014	
($ thousands)	Cash equivalents	Temporary investments	Cash equivalents	Temporary investments
Government & government guaranteed				
AAA	$ 88,405	$ –	$ –	$ –
AA	101,838	–	–	–
AA-	222,414	–	–	–
A+	121,646	–	–	–
	534,303	–	–	–
Schedule 1 banks				
A-1+	301,863	–	621,797	70,833
A-1	236,160	–	285,723	69,947
	538,023	–	907,520	140,780
	$ 1,072,326	$ –	$ 907,520	$ 140,780

Effective November 1, 2015, the credit rating policy for short-term government and government-guaranteed investments changed from using short-term credit ratings to long-term credit ratings. This policy change does not impact the credit rating criteria for investments in Schedule 1,2,3 banks. In 2014, all investments were rated using short-term credit ratings.

Venture capital debt investments

The corporation is exposed to credit risk through its venture capital debt investments. The corporation manages credit risk through thoughtful planning, strict investment criteria, significant due diligence of investment opportunities and by conducting activities in accordance with investment policies. The Investment Managers monitor and report on the financial condition of investee companies regularly.

b) Market risk

Market risk is the potential for loss due to adverse changes in underlying market factors, such as interest rates and foreign exchange rates.

The corporation has market risk policies and limits to ensure that exposures to interest rate and foreign exchange risks are identified, measured, managed and reported on a timely basis. Market risk policies are regularly reviewed by ERMC and are approved by the Board. The corporation's policies and processes are based on industry best practices and the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations. The Treasury division is responsible for implementing market risk management directives and reports regularly to ERMC and the Board on its activities and asset/liability positions.

24. Risk management (continued)

Interest rate risk

Interest rate risk is the risk that a change in the interest rate adversely affects the corporation's net interest income and fair value measurements. Interest rate risk arises from interest rate mismatches between assets and liabilities and embedded options. Interest rate mismatches occur because of different maturity and re-pricing dates, residual assets funded by equity and different interest rate benchmarks for some assets and liabilities. Embedded options exist on fixed-rate loans that have principal deferral options, prepayment features and interest rate guarantees on loan commitments.

Exposure to interest rate risk is monitored primarily through an asset/liability model. Various scenarios are produced at least monthly to analyze the sensitivity of net interest income and fair values to a change in interest rates and balance sheet assumptions. The asset/liability model is back-tested and validated to ensure that the logic and assumptions used in the model are reasonable when compared to actual results.

Interest rate risk management is governed by policy, which has defined limits based on the projected impact of a 2% immediate and sustained change in the level and term structure of interest rates. The defined limit for the variability of net interest income is that, for the next 12-month period, net interest income should not decline by more than 10%. The second defined limit is that the market value of portfolio equity (MVPE) should not decline by more than 10% of the total equity (excluding AOCI) for a 2% change in interest rates. Based on the corporation's financial position as at March 31, 2015, assuming an immediate and sustained 2% change in interest rates occurs across all maturities and curves, net interest income and the MVPE would be affected over the next 12 months as follows:

	2015 Impact of		2014 Impact of	
($ thousands)	**2% increase**	**0.30% decrease (1)**	2% increase	0.85% decrease (1)
Projected net interest income variability	**$ 15,713**	**$ (2,681)**	$ 1,606	$ (1,644)
Limit	**(98,215)**	**(98,215)**	(92,470)	(92,470)
MVPE variability	**(294,288)**	**43,519**	(261,159)	113,422
Limit	**(472,358)**	**(472,358)**	(402,453)	(402,453)

(1) The lowest rate on the yield curves used in the model was 0.30% (2014 – 0.85%) to avoid using negative rates.

The corporation has a third defined limit that addresses its exposure to commitment risk. Commitment risk is the risk that interest rates rise after the corporation has committed to a lower interest rate to the customer. The policy states that the decline in the market value of the lending pipeline including new loans and renewals cannot exceed 0.5% of the total equity (excluding AOCI) for a 0.5% increase in rates. The net decrease in the fair value of undisbursed loans if there was a 0.5% rate increase was $6.3 million as at March 31, 2015 (2014 – $3.8 million), which was within the policy limit of $23.6 million (2014 – $20.1 million).

24. Risk management (continued)

The following table summarizes the corporation's interest rate risk based on the gap between the carrying value of assets, and liabilities and equity, grouped by the earlier of contractual re-pricing or maturity dates and interest rate sensitivity. In the normal course of business, loan customers frequently prepay their loans in part or in full before the contractual maturity date.

($ thousands)	Immediately rate-sensitive	Within 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest-sensitive	March 31, 2015 Total	March 31, 2014 Total
Assets								
Cash and cash equivalents	$ –	$ 1,142,324	$ –	$ –	$ –	$ 24,430	$ 1,166,754	$ 1,026,820
Yield	–	0.77%	–	–	–	–	–	–
Temporary investments	–	–	–	–	–	–	–	140,780
Yield (1)	–	–	–	–	–	–	–	–
Derivative financial assets (2) (3)	–	(332,483)	94,489	–	237,994	58,828	58,828	53,201
Yield (1)	–	0.92%	3.75%	–	4.54%	–	–	–
Loans receivable	16,175,647	1,183,214	2,402,250	6,442,203	847,531	51,970	27,102,815	25,671,535
Yield (1)	3.75%	6.40%	3.85%	4.20%	4.80%	–	–	–
Finance leases receivable	–	1,206	3,707	10,584	–	–	15,497	15,511
Yield (1)	–	4.94%	4.94%	4.94%	–	–	–	–
Venture capital investments	–	–	1,983	51,249	10,492	116,064	179,788	156,277
Yield	–	–	10.00%	10.82%	9.14%	–	–	–
Other	–	–	–	–	–	156,780	156,780	225,833
Total assets	$ 16,175,647	$ 1,994,261	$ 2,502,429	$ 6,504,036	$ 1,096,017	$ 408,072	$28,680,462	$ 27,289,957
Liabilities and equity								
Borrowings	$ –	$18,447,847	$ 2,140,742	$ 2,374,000	$ 442,065	$ 27,293	$23,431,947	$ 22,789,893
Yield (1)	–	0.55%	0.91%	1.23%	3.71%	–	–	–
Derivative financial liabilities (2)(3)	–	–	–	–	–	–	–	2,527
Yield (1)	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	393,990	393,990	331,622
Shareholder's equity	–	–	–	–	–	4,854,525	4,854,525	4,165,915
Total liabilities and equity	$ –	$ 18,447,847	$ 2,140,742	$ 2,374,000	$ 442,065	$ 5,275,808	$26,680,462	$ 27,289,957
Total gap 2015	$ 16,175,647	$(16,453,586)	$ 361,687	$ 4,130,036	$ 653,952	$(4,867,736)	$ –	$ –
Total cumulative gap 2015	$ 16,175,647	$ (277,939)	$ 83,748	$ 4,213,784	$ 4,867,736	$ –	$ –	$ –
Total gap 2014	$ 16,267,097	$(18,145,065)	$ 1,558,002	$ 3,912,423	$ 789,969	$ (4,382,426)	$ –	$ –
Total cumulative gap 2014	$ 16,267,097	$ (1,877,968)	$ (319,966)	$ 3,592,457	$ 4,382,426	$ –	$ –	$ –

(1) Represents the weighted-average effective yield based on the earlier of contractual re-pricing or maturity date.

(2) The notionals for derivatives with a positive fair value have been netted against derivatives with a negative fair value and are included with derivative financial assets.

(3) Represents notional principal amounts on derivatives, except for the non-interest sensitive amount.

24. Risk management (continued)

Foreign exchange risk

The corporation is exposed to foreign exchange risk due to differences in the amount and timing of foreign currency denominated asset and liability cash flows. The currency exposure is minimized by matching foreign currency loans against foreign currency funding. This risk cannot be perfectly hedged because the assets are amortizing loans and the liabilities are discount bonds, which creates timing mismatches for the principal and interest cash flows. However, the corporation has determined that the residual risk is insignificant.

The corporation's policy is to mitigate foreign exchange risk through economic hedges. All foreign currency borrowings are fully hedged at the time of issuance, unless the foreign currency denominated debt is used specifically to finance a like currency asset. The Board's policy limit for the foreign currency funding to foreign currency asset hedge ratio is a range of 90% to 110%. The corporation's actual ratio as at March 31, 2015, is 97.3% (2014 – 99.0%).

Derivatives

The corporation may use derivatives to hedge interest rate and foreign exchange risk. Derivatives alter the risk profile of the Consolidated Balance Sheet by reducing mismatches of assets and liabilities, while ensuring interest rate risk and foreign exchange risk are managed within policy limits.

When derivative transactions qualify for hedge accounting, derivatives may be designated as cash flow hedges that are accounted for as described in Note 2. Derivative transactions that are not designated as cash flow hedges are still considered economic hedges. Economic hedges that do not qualify for hedge accounting may lead to net income volatility because the derivatives are recorded at fair value and this volatility may not be representative of the overall risk.

Venture capital equity investments

The corporation is exposed to price risk through its venture capital equity investments. The corporation manages price risk through thoughtful planning, strict investment criteria, significant due diligence in assessing investment opportunities and by conducting activities in accordance with investment policies. The Investment Managers monitor and report on the financial condition of investee companies regularly.

Post-employment benefits

Significant financial risks are related to the registered pension plans' investments. These financial risks are managed by having an investment policy that is approved annually by the Pension Committee. The investment policy provides guidelines to the registered pension plans' investment managers for the asset mix of the portfolio regarding quality and quantity of debt and equity investments. The asset mix helps reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Investment risk is managed by diversification guidelines within the investment policy.

The pension plans' asset structure includes both Canadian Long Bonds and Canadian Real Return Bonds in an attempt to match a portion of the plans' assets to the plans' liabilities. The current target composition of the plans' portfolio includes 16.5% of assets invested in Canadian Long Bonds and 13.0% invested in Canadian Real Return Bonds. The Canadian Long Bonds have a duration of 14 years and the Canadian Real Return Bonds duration is 16 years, while the registered pension plan's liabilities are estimated to be 21 years and the supplemental pension plans' liabilities are estimated to be 20 years. As the plans' benefits are fully indexed to inflation, the Canadian Real Return Bonds provide short-term inflation protection for the plans.

The pension plans' funding policy is such that the corporation pays such contributions as deemed to be necessary to provide the benefits promised under the pension plans, including the amortization of any going concern or solvency deficiency.

The corporation monitors expenses paid from the pension fund to ensure that they are reasonable. A formal funding policy statement has been adopted and approved by the Board to provide guidance with regard to the funding of the plan's defined benefit provision. The corporation implemented the funding policy and monitors its application.

24. Risk management (continued)

c) Liquidity risk

Liquidity risk is the risk that the corporation has insufficient funds to meet payment obligations as they come due. The corporation has a liquidity risk policy and limits and the Treasury division regularly reports compliance within these limits to ERMC and the Board.

The corporation measures, forecasts and manages cash flow as an integral part of its liquidity management. The corporation's objective is to maintain sufficient funds to meet customer and business operational requirements.

The corporation maintains liquidity through:

- a liquid investment portfolio – cash and cash equivalents, and temporary investments of $1,166.8 million were on hand as at March 31, 2015 (2014 – $1,167.6 million)
- access to short-term funding – the corporation's access to funding through the Crown Borrowing Program and capital markets provides the corporation with sufficient liquidity to meet daily cash requirements
- access to a $30.0 million bank operating line of credit

The following table shows the undiscounted cash flows of the corporation's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal cash flows represent the contractual undiscounted cash flows relating to the principal and interest on the financial liability. The corporation's expected cash flows on certain instruments varies significantly from this analysis. For example, certain borrowings that may be prepaid by the corporation have not been included in their earliest possible maturities due to being impracticable to estimate.

Residual contractual maturities of financial liabilities

	March 31, 2015						
($ thousands)	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	**$ 23,431,947**	**$ (23,429,460)**	**$ (1,940,947)**	**$ (1,920,102)**	**$ (9,856,480)**	**$ (9,210,250)**	**$ (501,681)**
Transition loan liability	**96,257**	**(97,823)**	**(6,834)**	**(5,527)**	**(28,300)**	**(55,264)**	**(1,898)**
Derivative financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	$ 23,528,204	**$ (23,527,283)**	**$ (1,947,781)**	**$ (1,925,629)**	**$ (9,884,780)**	**$ (9,265,514)**	**$ (503,579)**

	March 31, 2014						
($ thousands)	Carrying value	Gross nominal outflow	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years
Non-derivative financial liabilities							
Borrowings	$ 22,789,893	$ (22,787,943)	$ (4,309,505)	$ (1,194,018)	$ (4,873,399)	$ (11,874,036)	$ (536,985)
Transition loan liability	97,194	(98,754)	(7,204)	(7,575)	(29,669)	(52,442)	(1,864)
Derivative financial liabilities	2,527	(2,527)	–	–	–	(2,527)	–
	$ 22,889,614	$ (22,889,224)	$ (4,316,709)	$ (1,201,593)	$ (4,903,068)	$ (11,929,005)	$ (538,849)

24. Risk management (continued)

Insurance risk management

Assumptions and measurement uncertainty

The corporation's insurance provider determines the reserve for insurance claims actuarially using the Canadian Asset Liability Method (CALM). Under CALM, the future cash flows from the insurance contracts and the assets that support them are dynamically projected in a number of scenarios prescribed by the Canadian Institute of Actuaries, using current best estimate assumptions with provisions for adverse deviation. The corporation engages independent actuaries from time to time to review its insurance program to ensure that the assumptions, methodologies and processes are prudent.

In calculating the reserve for insurance claims, assumptions must be made about interest rates, asset default, inflation, mortality and morbidity rates, policy terminations, expenses and other factors over the life of the insurance policies. Best estimate assumptions are used for expected future experience. Additional provisions are included in the reserve for insurance claims to provide for possible adverse deviations from the best estimate. If the assumption is more susceptible to change or if there is more uncertainty about the underlying best estimate assumption, a correspondingly larger provision is included in the reserve for insurance claims. There have been no changes in assumptions that have significantly affected the reserve for insurance claims in the current fiscal year.

The provisions are reviewed for reasonableness when taken one at a time and also in total. The best estimate assumptions and margins for adverse deviation are reviewed annually and revisions are made where deemed necessary and prudent. The assumptions with the greatest potential impact on net income are mortality and investment returns.

Insurance mortality refers to the rates at which death occurs for defined groups of people and is generally based on the corporation's five-year average experience. In general, assumed mortality rates do not reflect any future expected improvement, except in some instances where the net effect of reflecting future improvement increases the policy liabilities.

Assumptions related to investment returns include expected future credit losses on fixed income investments. Past corporation experience and industry experience over the long term as well as specific reviews of the current portfolio are used to project credit losses.

Assumptions for termination experience are generally based on the corporation's five-year average experience.

Expense assumptions are based on the corporation's recent experience using an internal expense allocation methodology.

25. Subsequent events

The Board approved the consolidated financial statements on May 27, 2015. There were no subsequent events requiring recognition or disclosure within the consolidated financial statements between March 31, 2015, and the date of approval.

Glossary

Agribusiness and agri-food

Suppliers or processors who sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

Alliances

Relationships established by contract between FCC and other agriculture or financial organizations designed to pool talents and offer expanded customer services.

Allowance for credit losses

Management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

Arrears

All amounts that are past due by more than $500 on a loan, including impaired loans.

Basis point

One hundredth of one per cent, used when describing applicable interest rates or the yield of an investment (1 bps = 0.01 per cent).

Counterparty

The other party involved in a financial transaction, typically another financial institution.

Counterparty risk

The risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

Credit rating

A classification of credit risk based on the investigation of an individual or company's financial resources, prior payment pattern and history of responsibility for debts incurred.

Crown Borrowing Program

Direct lending provided to the corporation by the federal government.

Customer support program

Plans developed to proactively assist customers who may experience loan repayment difficulties during down turns in a particular segment of the agriculture industry. Individual plans can include deferred payments or flexible repayment schedules for defined periods of time.

Debt to equity ratio

The level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

Derivative financial instrument

A financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. Use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

Effective interest method

A method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

Efficiency ratio

A measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

Embedded derivative

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Fair value

The amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

Foreign exchange risk

The risk of financial loss due to adverse movements in foreign currencies.

Hedge

A risk management technique used to protect against adverse price, interest rate or foreign exchange movements through the elimination or reduction of exposures by establishing offsetting or risk-mitigating positions.

Impaired loans

Loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured.

Interest rate swaps

Contractual agreements for specified parties to exchange interest payments for a specified period of time based on notional principal amounts.

Interest rate risk

The risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

Leverage

The relationship between total liabilities and the equity of a business.

Loan renewal rate

The percentage ratio of principal dollars renewed to principal dollars matured.

Market value of portfolio equity (MVPE)

The net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

Minimum regulatory capital ratio

The minimum level of capital, as a percentage of risk-weighted assets, which is prescribed by regulations issued by the Office of the Superintendent of Financial Institutions (OSFI).

Net disbursements

Disbursements represent the release of funds against approved loans. Net disbursements exclude the refinancing of existing FCC loans.

Net interest income (NII)

The difference between the interest earned on assets, such as loans and securities, and interest expense on borrowings.

Net interest income margin

NII expressed as a percentage of average total assets.

Notional amount

The amount considered as principal when calculating interest and other payments for derivative contracts. This amount traditionally does not change hands under the terms of the derivative contract.

Other comprehensive income (OCI)

Represents gains and losses due to changes in fair value that are recorded outside net income in a section of the shareholder's equity called accumulated other comprehensive income (AOCI).

Prepayments

Prepayments are defined as unscheduled principal payments prior to interest term maturity.

Primary production

Agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy, as well as fruits, vegetables and alternative livestock. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

Provision for credit losses

Charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

Return on equity (ROE)

Net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding AOCI.

Risk scoring and pricing system (RSPS)

A tool used to evaluate the type and potential impact of risks present in each loan or finance lease to ensure FCC is adequately compensated for the risk in its portfolio. The pricing component of RSPS calculates the risk price (risk adjustment), which is the portion of the loan margin required to cover the risk of loss.

Risk-weighted assets (RWA)

Assets weighted according to relative risk as prescribed by the regulatory capital requirements issued by OSFI.

Structured entity

An entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

Total capital ratio

The total capital ratio is calculated by dividing total capital by RWA. The corporation's total capital consists of retained earnings, contributed surplus and AOCI, and are net of required regulatory adjustments prescribed by OSFI. The applicable regulatory adjustments consist of the exclusion of intangible assets, accumulated gains or losses on derivatives designated as cash flow hedges and post-employment benefit assets.

FCC office locations

British Columbia

Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta

Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Strathmore (S), Vegreville, Vermilion, Westlock

Saskatchewan

Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Wadena (S), Weyburn, Yorkton

Manitoba

Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario

Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec

Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, St-Hyacinthe, St-Jean-sur-Richelieu, Ste-Marie, Trois-Rivières, Victoriaville

New Brunswick

Moncton, Woodstock

Nova Scotia

Kentville, Truro

Prince Edward Island

Charlottetown

Newfoundland and Labrador

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